"Tech Mahindra Limited Q2 FY17 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Tech Mahindra Limited Q2 FY17 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 '*' followed by '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Vineet Nayyar - Vice Chairman. Thank you and over to you, sir.

Vineet Nayyar: Good morning, good evening friends. And welcome to Tech Mahindra Financial Results for the second quarter ended September 30, 2016. We are pleased to report a quarter of all around growth. Our revenue for the quarter was Rs. 7,167 crore or approximately $1.072 billion. This was up 3.6% quarter-on-quarter and 4% in dollar terms, and 8.3% so far year-on-year in terms of rupees. During the quarter, the GBP depreciated and hence we had an adverse impact of 1% on our growth numbers. Adjusting for this constant currency growth was 5% this quarter. EBITDA margins were flat quarter-on-quarter at 14.9%. However, during the quarter we incurred a non-recurring restructuring expense of approximately $13 million. If we were to exclude this, then perhaps our earnings would have been close to 16%. The EBITDA also saw impact due to GBP depreciation against INR., the profit after tax for the quarter was Rs. 645 crores or around US $97 million.

Coming to the broader economy, recently IMF in its latest World Economic Outlook kept its expectations for global growth in CY 2016 unchanged at 3.1%, which indicates that the pace of growth has not changed or decelerated in the recent year. Nonetheless, we should not underestimate the risk ahead, including geo-political and economic stability, the latest being the US elections where we have heard the tone of populism and protectionism against the backdrop of stagnating global economy.

There is a possibility of rate hikes in the future, but in a lot of way possibility of rate hike implies that US economy is doing better. In the midst of these macro challenges, the IT industry has also to deal with changing technology, rapid digitization and change in business models. Tech Mahindra has thrived through such cyclical changes and is confident of its growth in the changing environment due to what we believe is our agility, customer centricity and investment in future bets.

In our continued journey of improving our operational efficiencies, we were able to improve our utilization by another 2% points and take it to 82%. Our endeavor will be to improve the margins, while we deal with headwinds like currency, pricing pressure, legacy business and ever changing macros. But so far as specific improvements, specific accounts and for greater operational details, I will ask CP, our Chief Executive to take on from here and add to large number of areas which I have left uncovered. CP?

CP Gurnani: Thank you, Vineet. And thank you so much for setting the call with the analyst. As you all know that despite of whatever we have been hearing regarding the challenges in the economy, overall I am very pleased, and particularly pleased because the growth has been led by communication business which has grown 2.4% quarter-on-quarter and 3.4% quarter-on-quarter in constant currency terms. I think the telecom and communication team has done a phenomenal turnaround.

We do believe that the mainstay of our growth continues to be enterprise, they have shown a robust growth of 5.5% quarter-on-quarter. The heartening part was manufacturing which has grown 10.3% quarter-on-quarter. Retail, travel, logistics vertical has shown another spectacular growth of 8.9% quarter-on-quarter. We also saw three large deals being signed this quarter. Overall, my personal take is that we have had a great H1.

Digital has now become the core of our service offering. Digital, all my wins have been mainly in product engineering, mainly in cloud, mainly in IoT, and mainly in INF side. So, it clearly shows that Tech Mahindra's service offerings are matured. We are constantly not only winning, but we are also getting accolades from our customers. We have added seven new clients; our operating metrics have shown improvement. My utilization is running at 82%, if I include the trainees, then it is running at 78%. It is one of our fair amount of improvement. I have also added about (Inaudible), is adding a lot of value in our service offerings. Similarly, Pininfarina was a separately listed company in Italy, we are adding value to their growth story. Basically, I can only say overall exciting times, while there will be (Inaudible)

Manoj Bhat: Okay. What I suggest is that, Milind can I request you to just clarify on some of the numbers and we will go to Q&A and in meanwhile we will try CP.

Milind Kulkarni: Vineet and CP have talked about the revenue. We have had a constant currency sequential growth of 5% in the quarter and 2.5% of that has been organic, 2.5% has been through three acquisitions which we have in the quarter. In terms of EBITDA, the absolute EBITDA number was $160.3 million as against $153 million in the Q1. So, the EBITDA margin for the quarter was 14.9%, same as EBITDA margin in the last quarter. But I would like to highlight the two issues, two extra cost which we have taken in the quarter. One was a non-recurring restructuring cost, which Mr. Vineet Nayyar referred to in his speech of about $13 million, but for that our EBITDA would have been about 16.1%. We also had an adverse currency impact of about 40 basis points. So, our EBITDA in constant currency term for the quarter as compared to 14.9% last quarter would have been about 16.5%, but for these two developments which I have talked of.

Now other income for the quarter was about $21 million in this quarter as against $36 million. And the reason for that in last quarter we had mentioned to you that we had a one-time restructuring benefit of Pininfarina loans that was about $15 million. Now, if one excludes that the other income is almost at the same level as last quarter.

The depreciation and amortization for the quarter was about $37 million as against $30 million in the last quarter, partially contributed by the amortization on the acquisitions that we have done as well as partially because of the capital expenditure over the last few quarters.

The net profit for the quarter was $96.5 million as against $111.5 million and the impact of other income being lower, depreciation and amortization being higher is seen in the profit after tax number. The tax for the quarter was higher than the last quarter because of some of the one-time tax incidence on the dividend income that we have received from our subsidiaries. But that is a one-time thing, it will even out over the next two quarters. The tax rate for the year as a whole we expect to be about 24% to 25% range, which we have indicated.

Let me talk about our hedges. Our USD hedges are about $1,088 million at Rs.72.4, today's rate is whatever I mean close to Rs. 67. GBP hedges are at 193 million at Rs. 104.5, significantly higher than the spot rate. And euro hedges at about 131 million at about Rs. 82.40. So, total MTM gain on our hedges as on 30th September was $84 million, almost double what it was in the June of about $42 million. As you know, we follow hedge accounting and based on hedge accounting $16 million of this MTM gain has come to P&L, and $67 million is carried forward in the reserves. We have been following the hedge policy consistently over last two years and that as the numbers show has yielded a good dividend for us. So, I mean while the Brexit impact is seen in terms of currency rate, we have had a very good Sterling covers, nearly 80% of my Sterling exposure for the next six months is covered at $1.5 as against the current spot of about $1.22. 70% of my first half of the next year, H1 2018 is covered at $1.47, and about 40% of the H2 FY18 is covered at $1.44. So, a very healthy hedging covers that we have.

Our cash and cash equivalents are about $601 million and that is after the dividend outflow of about $210 million in Q2 and payments for acquisition of Target Group of $138 million. So, overall healthy cash position even after these two payments. My cash flow from operations for the quarter is $109 million, which is about 68% of my EBITDA, as against $137 million in Q1, which was 89% of EBITDA.

DSO for the September 2016 were 107 days as compared to 108 days in September of 2015. Our efforts are focused on continuously reducing the DSOs and we are hopeful that you will see the results in the coming couple of quarters.

Overall, a very satisfactory performance from our side.

With that, I think, we could open the floor for the questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. Our first question is from the line of Sandeep Muthangi, IIFL. Please proceed.

Sandeep Muthangi: My first question is on Telecom. We have seen growth, it is very encouraging. I want to get your insights into, should one interpret this as most of the issues with the telecom being past and behind us and the growth rates will improve or do you still think that the whole Telecom, either the LCC issue or the mix is a little uncertain and near-term visibility is still pretty low.

CP Gurnani: Sandeep, the reality is that, if there is a change that is happening in any sector then it is really the most rapid change is in communication sector. We have all seen that voice has flown on the bloodline of telecom communication sector, data has overtaken voice and within data also video is playing a more important role. Now, different companies around the world are adopting new strategies. A telecom company in Australia is doing health services, you know BT went and bought Premier League as a content. So, my point is that the change is good for us because the change really means is that there will be new technologies that will be used. My personal belief is that core of our business, I think we have got a much better handle now and we should be able to see new service offerings, but new avenues of growth also.

On the network side, and you have seen the turmoil in Ericsson, you have seen the turmoil in many other companies, my belief is that we will take a little longer to completely rejuvenate the telecom business, which includes LCC. I think by December we will have a better handle on our full recovery plan, but I am feeling good about the core of our business which is the IT part of our Telecom business and the digital part of our Telecom business.

Sandeep Muthangi: And on the margins, I wanted to understand the nature of this restructuring expense a bit. Is this because of any renegotiations that you had with your customers or is this a part of some other charge related to some of the businesses that are anyway undergoing restructuring?

CP Gurnani: Manoj, you want to take this?

Manoj Bhat: Yes. So Sandeep, I think this charge is nothing related to any customer. This is really, I think you should look at it as kind of a restructuring to manage some of the ratios around onsite and offshore and so on and so forth. And that is what this is associated with.

Moderator: Thank you very much. Our next question is from the line of Yogesh Aggarwal from HSBC. Please proceed.

Yogesh Aggarwal: Manoj, if I look at the subsidiary margins, the console minus standalone, it has been around 3% - 4% in the past six months. I understand some of the subs may be loss making, so dragging down the overall margins. But where do you see the subs margins going over the next two, three years?

Manoj Bhat: So, I think if look at the major subsidiaries, I think clearly the major subsidiaries are clearly LCC and Comviva and Hutchison Global Services, those are the three main subsidiaries. So, as we have mentioned before Hutchison Global is a steady margin business, Comviva is very cyclical, but every year I think they have been showing a mid-teen kind of range and I would expect that to continue. The only other thing is about LCC, which is what CP alluded to. And you must understand some of these charges are also in relation to or some of these margin pressures are also in relation to just changing the profile of the business and changing some of the teams in some of these businesses. So, I think you should expect a little bit of up and down for some time, but I think it will all settle down in a couple of quarters, is my view.

Yogesh Aggarwal: So it will settle down higher than where we are today?

Manoj Bhat: That would be our endeavor.

Yogesh Aggarwal: And then just overarching question, you have done multiple acquisitions in the past few years and most of them have been good, but some misses as well. At this point, as you look back, is there any change in M&A strategy, the pace of M&A as well as the overall profile of M&A?

CP Gurnani: Yogesh, last seven years we have had one consistent answer, that your company believes M&A is core of our strategy. Your company will continuously look for both adding new capabilities and additional markets. So, I do not think size has ever limited us and we have proven to you seven years ago in 2009, your company went and acquired a larger company and took debt. So, I would like to say is that every acquisition from our perspective is strategic. Yes, one of them has been a slow turn around, a little slower than what we had anticipated but then that is life, Yogesh.

Moderator: Thank you very much. Our next question is from the line of Viju George from JP Morgan. Please proceed.

Viju George: I had a couple of questions on these one-off costs, I think you did mention that they are related to certain, is it termination of contracts on onsite -offshore arrangements? And if so, then are they related to specific contrasts, do we have such risks coming up in any other contract in the portfolio so that we may not be surprised by this?

Manoj Bhat: Sorry Viju, did you say termination of contracts? We never said that, so…

Vineet Nayyar: He wants to know, what is the reason.

Manoj Bhat: So, as I mentioned Viju, I think this is just one of the measures of driving future efficiency. And clearly when we said one-off I do not foresee it happening again in the near future, and that is why it is one-off, right. Because if it is something which we can foresee we would come out and say it as soon as we foresee it.

Viju George: Sorry, I was under the impression that is related to maybe cost incurring termination of staff, onshore staff for certain projects. And, so is that understanding correct?

Manoj Bhat: Yes, that is right. And all I said is that…

Viju George: And we do not see this in any future contract, this kind of risk materializing, that is the question.

Manoj Bhat: No, see in our business this is part of the usual business, this time it is unusual because it is a one-time exercise we have done. Because in the past also, we have done that in the future, we will continue to do that in terms of optimizing. But this time the extent and the impact is large and we are calling it out because this kind of a cost I do not think it will repeat in a hurry.

Viju George: Sure. And the other thing I had was on telcos, you had a nice bounce back in this quarter, nice to see. How sustainable is this? Is this led by a couple of contracts or is it little more broad based? That is one part of it. The second is that, I do not know if it's very early to talk about 5G, but if I recollect rightly, last time you participated very strongly in this 3G to 4G upgrades. Is any 5G out there in the horizon at all from the CAPEX plans of operators and like to know how close we are to that? Thank you.

CP Gurnani: So Viju, I will let Manish give you a detailed answer on this. Because my answer, Sandeep asked the same question and except that you did not get into that level of detail 4G to 5G. So, Manish, will you give your perspective please?

Manish Vyas: Absolutely. Viju, thank you for that question, and Sandeep earlier. See 5G, the only common thing about 5G right now across the world is that nobody has the common definition of 5G. That said, there is one message that you will keep hearing from anybody you talk in the industry, whether industry pundits or leaders, regulators or others, to CP's earlier point that the industry is going through a transformation that is both at a breakneck speed and the type of transformation that has never been seen in this industry from devices, applications, network, even the way the networks are going to be constructed, everything is changing very rapidly. And all of that put together, given the objectives that people want to achieve from an IoT standpoint, from throughput, from energy, I think is going to be the combination that will define what 5G is really going to be.

To your question whether are we engaged and are we discussing with various ecosystem players around what exactly would this mean and what are the opportunities that will pan out from this? The answer is a big yes. But is this something which is going to be imminent and short term? I do not think that is going to happen because we will all have to wait and watch exactly how the strategies evolve. There are the standards and the architectures will all take a while to settle down. But sometimes, something that we have been saying very regularly for several quarters now that the broad based strategy that Tech Mahindra has overall and in comps business which is to continue to help people and service providers run their network better, change and transform and derive the benefits of the growth opportunities and create the network and the applications that can help them grow. I think it is pretty much there and all of these will fall in line. I see these as opportunities, but the core strategy remains the same and we continue to get solid endorsement on that.

Viju George: So, what you are saying is, it's not yet imminent. One other last question on margins, I think, adjusted for the separation, your margins might be at 12.6% - 12.7% EBIT. I am just trying to understand the levers that you still have available over the next, say four to six quarters, to take it up to maybe say 15% or wherever maybe you can just discuss that please? Thanks.

Manoj Bhat: So, I think as I have mentioned in the past calls also, clearly if you look at even this quarter, so we have added about 2,700 trainees in an effort to correct the pyramid. And clearly that is an effort which we will keep pushing in terms of just getting the mix and the profile right of our employee pyramid. The second issue, second lever would be about rotation and related items, from a perspective of the other efficiency levers I think the big one is automation. I think our platform is ready, it is getting deployed across engagements. We should see some of those improvements come through in as we go along. Clearly, I also hinted in a previous answer about some of the acquisitions that they are work in progress in terms of improving margins, so that is one more lever which we see. So, there are multiple levers here which are there which could help us improve margins, and we will have to move them as they come along.

Moderator: Thank you very much. Our next question is from the line of Divya Nagarajan from UBS. Please proceed.

Divya Nagarajan: Quite a few of the questions have been asked already, but on the question of the telecom revival, what do you see as the medium-term growth prospects of telecom, because over the last few years we have seen some choppiness. I understand that we are still some time away from being very confident on structural revival, but what is the opportunity for growth that you see, can telecom come to where the industry level growth is for you in the next couple of years?

CP Gurnani: So, Divya, you have heard the different perspectives. In my management team, I have a new addition, Ritesh Idnani, he is the President of BSG and he is going to run my complete BSG operation. Ritesh, you have been spending some time with the telecom players, do you want to add your perspective?

Manoj Bhat: CP, Ritesh is not on the call, he could not join.

CP Gurnani: Okay. So then in that case Manish, you will have to come again.

Manish Vyas: So, your question is if the growth pattern in telecom is going to be sustaining or what is the mid-term perspective on that? We believe, like CP said, we have seen the worst of the comps business from our perspective behind us. We do believe that the opportunity is immense. The only thing that I cannot put my finger on is the exact time lines in terms of how some of these exciting opportunities will pan out, because these are some very complex transformations that will happen over the next couple of years now both on the infrastructure, network side and application as well as the underlying business models, because of the type of deals that you are hearing in the market place.

From our perspective though, the fact that we have always had a very diversified portfolio that cuts across IT, digital, network, operations that Ritesh runs and, of course, the business side, we always will have one or the other that will lead our growth charter going forward. And the fact that we have this worldwide presence which is probably second to none in terms of the spread that we have across all continents, also will help us to continue to take advantage of opportunities of different types in different markets. So overall, we feel very good about how the business is shaping up, how some of the strategies that we put together in the past are playing out right now. I cannot point to a very specific number, but I can only say that I am feeling good at this point than one felt few quarters back.

Divya Nagarajan: And a more generic question on what you are seeing as the potential impact of the UK referendum, some of your peers have called out some weakness in the market because of that, is that something that you are likely to see as well in the next few quarters? Thanks and all the best for the rest of the year.

CP Gurnani: Vineet, you probably are closer to this action.

Vineet Nayyar: In terms of business, I do not see anything significant happening. In terms of currency, yes, we are seeing some short-term adjustment downwards on the US Sterling. But again, I do believe that in the long-term, which is two to three years, you will see an upward movement in the Pound Sterling because ultimately currency only reflects in added strength of economy, and British economy I think is doing well relative to European economies other than Germany, and will continue to do well despite Brexit.

Moderator: Thank you very much. Our next question is from the line of Pankaj Kapoor from JM Financial. Please proceed.

Pankaj Kapoor: Just a few clarifications first. So, we had all the impact of the acquisitions in this quarter or is there something which is going to come in the next quarter as well?

Manoj Bhat: Sorry, Pankaj I did not get the question, did we get the full impact of all the acquisitions?

Pankaj Kapoor: That is right, or is it only partial impact on this quarter and…

Manoj Bhat: Full impact of BIO and PF, about I think 40 days or 45 days of target, that is the impact in this quarter.

Pankaj Kapoor: And second, so with this restructuring now done of the onsite employees that you mentioned. So, in terms of margin lever it should eventually lead us to better offshore mix, right? That is one. And I think from a per capita cost perspective also it should come down. Is it the right interpretation of this going forward like in the next couple of quarters?

Manoj Bhat: That is correct, that is what we expect will happen.

Pankaj Kapoor: So Manoj, in terms of then for the margin outlook, should we expect that for the full year we should be very close to where we were last year, or you think that there could still be some headwinds ahead for us?

Manoj Bhat: In the last call, we had said that that would be our objective, but post that I think the worrisome aspect is the currency, I think since then we have lost 0.5% this quarter on currency and clearly that is one of the risks I do foresee going forward. So, that is something which is an unknown. Otherwise, there are some levers in place which could on a constant currency if I go back to whenever we made that statement, on a constant currency basis we were on track then to keep the margins flattish. That was what we said then.

Pankaj Kapoor: And in terms of LCC are we seeing any margin improvement now after the restructuring that we have done in the Business portfolio.

Manoj Bhat: I think the margin improvement, as even CP suggested that is work in progress. We will have a better handle on it. Because the changes are happening, and when those changes are happening we are taking cost hits and that is one of the reasons the margins are depressed, have been depressed for the last two quarters. And I expect that, that is what CP said that we will be very clear towards the end of the year after December, then we will have better visibility.

Pankaj Kapoor: On telecom vertical as such, two questions. One, because of one of your large client now involved in another acquisition, do you see any impact of that on the business flow? I mean its early days for that, but any sense if you have got over there? That is first part. Second part is, like in terms of deal flows over there, what is the kind of outlook are we seeing? Are there any kind of those managed network services deal that we have spoken about in the past out there in the market, and should we expect any of them closing in the next couple of quarters?

CP Gurnani: I think acquisitions, frankly it is premature to comment anything, because as you know that, in the US the process is fairly long before any acquisition gets consummated and it has just been announced. So, I think it is really premature. Overall, I think Manish has been very categorical that he sees relative stability and he sees relatively a decent growth in the core business. And you have to remember that we went through fairly turbulent times in the last one year. So, I think what we are hearing from all of us at Tech Mahindra is that we think our core business is going to be stable and there will be a growth trajectory.

On the LCC side, we are looking at a major restructuring, that restructuring would be completed by December and we will be able to give you a better visibility. If at all, I can only say is that most of the work in progress I think we have a decent handle on the current book of LCC and we again are looking at growth coming back to LCC.

Pankaj Kapoor: Second part of my question actually was on the managed network services deals similar to the base telecom deal that we have won in the past. So, there was expectation that with LCC coming in our winnability in those deals could probably improve. It looks like that has not translated so far, which I presume is more a factor of how the market has behaved. So now with the stability coming in the market, do you expect some of those deals, which could be in the pipeline moving up now and do we expect any closure on them in the next couple of quarters?

CP Gurnani: I would say that my relative build-up because of the market for managed network services deal is relatively slow. So, currently my pipeline is slow and hence I would not like to promise any large managed services deal in network services. I mean things can change, but as of date, it is a slow build-up.

Pankaj Kapoor: And last question Manoj, on the tax rate going up in this quarter, I guess tax rate going up in this quarter, I guess that was because of the treasury shares housed in the trust. So any rethink in terms of extinguishing those shares or you think that you want to retain them.

Manoj Bhat: Pankaj, I do not think there is any change in thought process around why we created the treasury shares in the first place. So, I think that is not a discussion we have had in terms of any change in thought process there.

Pankaj Kapoor: So, our guidance for the effective tax rate for the full year bake in any additional payments that we might make on the dividend side which of course will have an impact on the tax payouts as well, all that is baked in the 24% - 25% guidance that we have given for the ETR?

Manoj Bhat: Yes, that is right.

Moderator: Thank you very much. Our next question is from the line of Sandip Agarwal from Edelweiss. Please proceed.

Sandip Agarwal: So, CP I have couple of questions for you and then I have a couple of questions for Manoj. So, first on the demand side, so what I understand is that probably a lot of pain in LCC is behind us so we may not see more drag on the growth front from there. But are you seeing any kind of deals in the non-LCC business which gives you confidence in the core of it? And are you seeing any big transformation which are happening, which can delay that process?

Secondly, on the non-telecom part of the business, what gives you a significant confidence to maintain that non-telecom will do extremely or say better than the telecom going forward? What are the big changes you are seeing there and how well we are established in the IoT and the digital offerings? So that is my question to CP.

And then Manoj, just wanted to understand that if you see most of our profits, and I think this question has already been asked but just to get more clarity, we have very, very low margin in probably all the acquisitions taken together if we go by annual report of FY16 maybe 4% - 5%. So, are these acquisitions only strategic in nature and they will not return to company margin levels in the next two, three years also, is that the thought process? Or you think that now with the kind of restructuring we are undergoing we can probably again see the old margins of the company coming back? Because see what is hurting us in last several quarters has been this acquired company margins significantly which are bringing down everything. So, if you can throw some light there.

Manoj Bhat: I think, let me take that margin question first and I did try and answer that, I think somebody else had a question about what happens to these subsidiaries over a period of two to three years. And I like the fact you called them strategic, so I didn't know strategic meant non-profitable. But clearly from our perspective, we are very clear, and I did describe that Comviva is mid-teens margin, we have Hutch, which is a big acquisition which is also in the mid-teen range. So clearly the discussion amongst the major acquisitions was about LCC, which is a significant one. And I think we have discussed enough through the call on where LCC stands and what are the restructuring efforts. So, our hope is that as things fall in place I think that margin will come up.

Now, the second question is, you must understand that while as we integrate these acquisitions where the revenue gets booked is as important as, so for example, if we host an onsite business in LCC and whatever work we're doing offshore or on a travel mode in a Tech Mahindra entity, I would suspect that the Tech Mahindra entity will have more profitability than the LCC entity. Some of those will happen, but we are not there yet, but I am just saying that, just looking at the subsidiary statement might not truly reflect the success of the acquisitions. Sorry, what was the other question, the first one, could you repeat that?

Sandip Agarwal: So, the first one was primarily that what kind of momentum or deal wins or what gives you the confidence in the non-core part of the telecom? And also the same question applies to the non-telecom part of the business. So, what is happening which gives you confidence there?

Manoj Bhat: So I will ask Manish and then Manoj to give some color in terms of how they are thinking about what is happening with the customers in terms of what are they looking for and how are we positioned. And if I look at, and I will just make a quick comment, if I look at the TCV of the deal wins, it is $325 million this quarter, whatever we reported that is net new business. I think last quarter was about $300 million I think and the quarter before that was about $275 million. So, clearly there is some trend here, now whether that trend is strong enough, is a different point. But I think the second thing I would say is that kind of wins we are winning, I think if you look at the flavor around, we are helping people change the front end around their sales and CRM. We are moving people onto cloud environment and workspace as a service. So, the quality of the deal wins is also changing. So with that, I will hand it over to Manish and Manoj. Manish, maybe you can go first?

Manish Vyas: Sure, absolutely. So, what is happening in the market that is leading us to start feeling a little comfortable about the growth prospects is on all three vectors. The changes that are happening on the product mix and the revenue mix for the service provider markets. The transformation both digital as well as from a network standpoint and the need and the speed at which these things will start happening, of course there will be a regional pattern to it for a while. And last but not the least, there will continue to be enormous pressure on all the businesses to continue to find cost savings. And the platforms that we have put together from an automation and transformation of their existing operations is concerned as part of our run category I think all the three put together is continuing to show a positive trend. As we look at our funnel, as we look at the activity happening in all the accounts across the world, we are now starting to track much better in terms of the progress that the service providers are making in the non-core, the new stuff and how we are doing in that area. So, I think for us one thing is simple, it is about following where the money is and following where the investments will happen. And right now the magnitude maybe different, but it is happening indeed in all the three areas of focus for us.

Manoj Chugh: Sandeep, Manoj Chugh here. This is on the non-telecom side of the house. As you know, over the last several quarters we have been showing consistent quarter-over-quarter growth, this quarter has been no different. We have shared with you that our expectation is that the enterprise business will grow in line with the industry during the current financial year, and I am sure that the trend line kind of indicates that to you as well. We believe that our two important verticals within the enterprise business, manufacturing and BFSI will continue to help us in this journey. We have also seen traction across geographies and across several of other emerging verticals; CP has already shared the results of some of those with you. So, I think overall, we are tracking right now well in line with the industry and I think that our important verticals will continue to be key contributors.

Moderator: Thank you very much. Our next question is from the line of Sagar Rastogi from Ambit Capital. Please proceed.

Sagar Rastogi: In the recent past we have seen some technology companies like Microsoft, Dell, Apple raise prices in the UK by as much as 10% to 22%. Is it possible that you guys can also increase prices for your GBP customers, given that the currency depreciation has been pretty sharp?

Manoj Bhat: So clearly, I think we have also seen that trend. And something, which I think there will be an effort by, I guess all of us to try and do some of that, but in terms of some of our contracts, they might be fixed price and so on and so forth. So, we will have to see how it pans out. But it is a fact that the GBP depreciation has happened. So, I think clearly there will be conversations and we will have to make progress on that and report back if anything happens, but I think we are at early stages right now.

Sagar Rastogi: So Manoj if I understand you correctly, you are saying your contracts do not have any clause that allows you to do that automatically, it will have to be a big negotiation sort of process to do so?

Manoj Bhat: Typically, our contracts would not have an automatic currency clause, yes.

Sagar Rastogi: Okay. And last if I may squeeze in on the pyramiding aspect, could you share any metrics such as, I do not know, average age of employee or percentage of employees less than three years of work experience, we could track to get a sense of your pyramiding efforts.

Manoj Bhat: So, I think if I look at last quarter we were at 28.2% or 28.3%. This Q2, we are up to 29.5% is zero to three years of experience.

Moderator: Thank you very much. Our next question is from the line of Sandeep Shah from CIMB. Please proceed.

Sandeep Shah: So, congrats on a very good execution. The first question is in terms of LCC, so I think we have been hearing about the restructuring, it has been going for many quarters. So just want to understand what has been completed and what has been pending for us to say it would be still a gradual kind of a turnaround. So, just want to understand what all two or three major stuff we have done and what all two or three major stuff is spending? Manish, if you can give some color on this?

Manish Vyas: Sure, absolutely Sandeep. And that is a great question by the way. So, from a restructuring standpoint, something that we have also been saying is we have anyways been adding the color to that in terms of saying it is happening at multiple levels. One, and the most important one that we have been very busy with and I would say we have now completed is the restructuring of the service portfolio. I will have to take you down the memory lane to remind that we have always said that network is where there is a much larger spend that the telco industry does than even the software and the IT. And the good news is that the networks are also going to be increasingly getting impacted by the software and virtualization. So, that is good news for us. Everybody says that to us. The customers and partners and the members of the analyst community, we like that. In reaction to that we have now put together a restructured portfolio, we introduced that to the market few weeks ago. Even yesterday, we introduced that and you'll hear about it in couple of days. We reintroduced that to the US markets in the bay area.

So, that is one thing that is completed, what it means and it is a very significant step that we have taken and lot of time and energy has been taken. And this is where very diversified set of people across 50 countries, coming in from very different, network is not just a very homogeneous word, it has got various aspects to it. And we have put all of that together and the portfolio of services now is completed and so everybody sings the same tune, if I may put it that way.

Number two is, we have isolated the countries and the businesses that needed some immediate attention where we were struggling or we have inherited some issues in terms of where the growth was getting impacted because of some of the management structuring. I would say, we have completed in most markets now. There are couple of areas that, for reasons which are far more complicated that will take us a little longer, we will have a very definitive view of this by December, but the underlying turnaround might take even a few quarters more, not because we would not have taken the steps in the direction, but just that there will be a biological time that will be needed to complete that.

And the third and most important one that we wanted to do was the management and the leadership across all levels. I would say at this point in time, we are at about 70% to 80% done in that space. Hopefully, by December end we would have completed the leadership and all aspects of people that will be needed to execute the strategy that we have put together. The overall larger strategy and the ecosystem of partners that we needed to put together are all in place, in the next two days we will be announcing a significant offer in the SDN and NFV... (inaudible) world that you will all get to hear in terms of what it means, it is probably the first of its kind of this initiative. So, I think a lot of work has happened to just conclude in the portfolio, in the markets that we want to continue to invest in and grow and in the leadership. But all of this will continue to take a little longer in terms of you starting to see some tangible results panning out from this. I hope that was helpful.

Sandeep Shah: Yes. Just a clarification, this restructuring cost was related to LCC or this was for something else?

Manoj Bhat: Sandeep, I think this is a combination predominantly, I think most of it is out of LCC business. It's got nothing to do with the LCC business.

Sandeep Shah: Okay. And in the enterprise vertical, if you strip out the acquisitions of Pininfarina and the other two, it looks like the organic growth in a seasonally good quarter does not look like very high, so is there some amount of client-specific issue or this can improve going forward?

Manoj Bhat: So, I think our seasonality is a bit reversed, because Comviva will come into the seasonally strong quarters, so I think this is kind of typical. The second thing is, I think if you look at enterprise growth, it was pretty strong in Q1 and I think in Q2 it has come down a bit, but we expect that it will pick up in the next two quarters. So, that is the way I would look at it.

Sandeep Shah: And Manoj just on the Pininfarina, now it is almost like a full quarter of consolidation, so can you throw some light in terms of the underlining margins because we were saying that the underlying margins can be a double digit, so are we near to that or it can be still a work-in progress?

Manoj Bhat: I think, so first of all, it is a listed company. So, they will be releasing their results and they have not released it to the markets yet. So, let it come out when it comes out. But I think more and more you should look at it as a combined margin and how it behaves. The only seasonal element probably would be Comviva as we all know. That is the way you should look at it.

Sandeep Shah: And just on the core telecom, last question. Earlier call, we said that we could be close to a mid-single digit kind of growth. Now with the turnaround, are we looking that the growth could be actually higher than that?

Manoj Bhat: I think I was very categorical 0% to 2% is what I said. I do not know where the mid-single digit came.

Sandeep Shah: I think, I am actually stripping out the…

Manoj Bhat: I was giving a number for all of it, so I think that I do not think we will deviate from that.

Sandeep Shah: Okay, so the core telecom ex of LCC and Comviva, we still expect mid-single digit is quite achievable or could be higher with the turnaround?

Manoj Bhat: I have never said that, but I have seen others comment and which I am repeating. I do not think that has changed.

Moderator: Thank you very much. Our next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please proceed.

Ashish Chopra: I had a question on telecom. So, over the past couple of years, if I see there have been the highs and lows, but just in a broader context if I super-impose this with some of the commentary and performance of the peers as well. So, we have seen TechM really stands out in terms of telecom growth maybe around a year and a half back while others were struggling. But right now, when we look at it, it is a really a little bit more secular when we look at the overall growth commentary and also the performance in the numbers. So, my question really here was, firstly, has it got something to do with the competitive intensity and how would you define it now versus a year back? And secondly, is it that there is, in totality, much, much more in terms of the nature of work and the quantum of work out there in the market to be had, just in terms of the pipeline size versus earlier?

Manoj Bhat: So, I think clearly, so Manish has covered a lot of the current view of how this is progressing in all his answers, I would just like to add one comment. If I look at, why there was a slowdown, I think we had clearly articulated that there were certain customer specific events which happen, which caused a large proportion of the slowdown, and we had even then said that this is going to be a cycle. In a lot of ways, I think what you are seeing now is we are coming out of that cycle, and that is the only change I see, I do not know whether I would like to interpret it as competitiveness and so on and so forth. But that is the broad statement, Manish maybe you have a short statement on this?

Manish Vyas: The only short statement I would want to add Manoj is, and we have always stated this that, even when the industry at large continued to remain very sluggish, when we grew we always maintained that it is because of the access rights that we have within the telecom industry for the investments that we have made over the last three decades. It is not an easy thing to replicate, this is a very mature buyers segment. The entry barriers are not easy and we have continually built since 2004 and 2005, an approach to broad-base our growth, in essence to try and be more things than just one to the same customer. We are not deviating from that, I think that is what is continuing. There will be patterns which are beyond our control sometimes, I wouldn't say always, but we continue to remain focused on going 100 mile deep with each of our customers as and when those opportunities continue to exist. So, we remain pretty focused on that strategy.

Ashish Chopra: And Manoj, would it be possible to quantify the impact on margins this quarter from acquisitions?

Manoj Bhat: As I mentioned that I think we should look at the consolidated level of margins, and I think that is the goal, because I think these are all parts of the company and we have to improve on each of them.

Ashish Chopra: Fair enough. And just lastly from my side, could you quantify the run rate of Target, I think it was growing at a CAGR of 20%, but any impact because of the fact that it is based out of UK and within BFSI.

Manoj Bhat: I think, specifically related to Brexit and BIO and Target, both I would say, we have seen a minimal effect because of Brexit. But its early days yet, we will have to watch. On the run rate, I think maybe we will do that next quarter when we have the full quarter, because right now it is a part quarter, I do not think it makes sense to just talk about that number.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraints, that was our last question. I now hand the conference over to Mr. Manoj Bhat for closing comments. Over to you, sir.

Manoj Bhat: Thank you all for joining the call. If there are unanswered questions, I think Vikas and I are available to answer them. And Happy Diwali to all of you. And I think we will meet again next quarter. Thank you.

Moderator: Thank you very much, members of management. Ladies and gentlemen, on behalf of Tech Mahindra Limited, that concludes today's conference call. Thank you all for joining us. And you may now disconnect your lines.

Note: The above transcript has been edited for better readability

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