“Tech Mahindra Limited Q1FY22 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Tech Mahindra Limited Q1 FY 2022 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. C.P. Gurnani – MD & CEO of Tech Mahindra. Thank you and over to you, sir.

C.P. Gurnani: Good evening, good morning, and welcome to Tech Mahindra Q1 FY 2022 results. Thank you all for joining us today. Your company continues to be focused on ESG, very focused on employees and the families of our employees.

Your company also announced an appointment or wellness officer during the quarter because, as you know, the Wave 2 in India did create a bit of a distress. And I can only say that the initiatives taken by the HR, the wellness officer, prove that we care for our customers, we care for our society, we care for our communities.

But more importantly, employee perks and employee families first was practiced during a daily call attended by the whole leadership every morning and every evening to monitor the progress of our community initiatives and employee initiatives. So, in a lot of ways, I can only say that we practiced and showed that we are a company with a purpose, and we practice what is not only good business, but business for the good.

Sometimes, during these trying moments, few awards touch you, so far our sustained efforts and putting nature, people and planet at the heart of creating global value, we have received the HRH Prince of Wales Inaugural Terra Carta Seal, and again, I want to compliment all our employees, the leadership and people involved in the ESG frameworks for continuing to demonstrate that a healthy company is a company which believes in healthy communities and CSR and ISR are part of our rise 10x.

Coming back to the business:

Your company has done well. We witnessed an all-around performance and growth across all our key markets and all the industry sectors. If you recall, I shared with you that the few matrices that we are monitoring is number of $50 million accounts, the volume and value of the large deals. Looking at revenue per account, I think that data discipline seems to be yielding results and our large deal wins continue to be robust. I had promised some of you that it would be in the range of $800 million to $1 billion; I think we are within that range. Again, thank you for your support. Thank you that we are delivering 4.1% quarter-on-quarter growth. For people in India, I mean who believes in the terminology called lakhs and crores, I know Rohit Anand had been pushing our leaders to cross Rs. 10,000 crores in one quarter, thank you for pushing up because we did cross Rs. 10,000 crores, and now this quarter we are Rs. 10,198 crores. So, yes, 198 moments to say we did it.

And I think overall, I can say that largest Healthcare deal, largest BPS deal this quarter. Healthcare deal is clearly about hospital modernization or patient care modernization. BPS deal is for more digital, integrated back office, provisioning and fulfillment. So, I can only say that I am happy that the investments that Tech Mahindra made over the last few quarters and let me again remind each one of us here, 5G, customer experience management, cloud, AI, data and analytics and IoT, these were the areas where we made investments. So, all your capital was deployed in acquiring companies in these spaces. And each of these acquisitions have now been well integrated and you are seeing the results of either acquisitions or setting up experience centers, setting up Centers of Excellence. Like for example, two years ago, when we set up this Open RAN Centre of Excellence in Bangalore, I mean, there were a lot of people who questioned us, will the radio network go on cloud, will the radio network go digital, will software defined network come here to stay. And now we are seeing an increased traction because of some of those investments.

I think the other highlight of this quarter is:

Number one, High-Tech vertical: We have been tracking for the last five quarters. And this time, we appointed and invested in a management team that we had hired for the High-Tech vertical. High-tech for us is hyper scalars, product engineering companies, and some of the unicorns. That High-Tech vertical has now shown us the highest growth. Over the last five quarters, and this quarter particularly, they grew over 8%. So, we will now be formally reporting to you every quarter on High-Tech vertical.

The second part is, as I said, BPS, digital BPS, customer experience side: We have continuously evolved.We have always shown you good results, but we have shown spectacular results this quarter, they are at 11% quarter-on-quarter, so thank you Ritesh, Dilip Keshu for your leadership. But definitely a very strong demand and a strong performance.

The third one is our Platforms: Business processes as a service and platforms is a new business unit. And we do believe that it will become one of our high investment areas. One of the new platform launches that we have done is netOps.ai. Manish Vyas, when he speaks to all of you, will share why he is excited about netOps.ai. But I can only say from the numbers part of it, platforms has registered 60 plus new wins. So, 58 new accounts, 60 plus new wins, highest INR PAT in Q1, delivering excellence and overall growth, working from all vectors I think overall the company is in good shape.

We are focused on talent. We are focusing on talent supply chain. We are continuing to invest in M&A, our capital allocation is doing well, I am sure Vivek will share a lot more with you. Our partner’s ecosystem is becoming stronger, both with the traditional players and some of the new age companies. It really means that we are creating new solutions through our partner ecosystem. Your company has also now realized that we need to be known for our thought leadership. We need to be known for our engineering excellence. We need to be known as one of the forward-looking company.

For this, we announced a partnership with FIDE to launch a Global Chess League. So, your brand will now be visible through the Global Chess League, which is in tradition of things to come, is a phyigital format, physical global closely played across various countries. We are advised by the three times Grandmaster Vishwanathan Anand, and we are also blessed that we would be doing both online and offline.

So, all I can say is, huge recognitions by partners, by the community, by the employees and an incredible work by the employees, company with a focus, company doing extremely well on ESG. I wouldn't need another 20 minutes only to talk about all the recognition we have received in ESG. But overall, very proud and grateful for an excellent quarter. Thank you all for your support.

I will hand over to Milind to take us through the breakup of the revenue and overall, the quality of business that we have delivered.

Milind Kulkarni: Thank you, CP. Good evening to everyone. So, let me cover the company financials in little more details.

Our first quarter revenue was $1,383.6 million, which is a sequential growth of 4.1%. And it includes currency tailwind of 20 bps, so our constant currency revenue growth is 3.9%. What is more heartening is its broad-based growth across all the verticals.

Our CME business: Communication, Media, Entertainment grew by 3.2%, and that too despite a seasonal decline in the mobility business, as you know normally the quarter one is the weakest quarter for us because of the salary increases, as well as the mobility business' seasonal nature. Our Enterprise business has grown by about 4.7% with key verticals like manufacturing, technology driving the growth.

Our deal wins continue to be healthy. And as CP alluded to, they about in the range of $800 million to $1 billion, our deal wins for the quarter were about $815 million and they are both in CME as well as enterprise vertical, I think $360 million and $450 million are the kind of rough numbers which are there for CME Enterprise vertical. And these included one of the largest deal that we have got in the Healthcare and also in the BPS segment.

The EBIT for the quarter was $209 million versus $219 million in quarter four. And as I mentioned, seasonally this is the weakest quarter for TechM. The EBIT margins have declined by about 130 basis points in Q1 versus Q4, impacted by salary hike, visa costs, seasonal decline in mobility business, and higher sub-con cost, which is partially offset by operating leverage and operating efficiency, lower SG&A over the last quarter. This has resulted in EBIT margin of about 15.2% for the quarter. We would look to improve the margins in the coming quarters, because there are tailwinds which are expected to more than offset the headwinds which will be there.

The net profit after tax for the quarter was about $183.2 million versus $147.7 million in Q4. It's primarily led by the higher other income of $34.4 million coming out of higher income on our surplus fund invested, as well as FOREX gain which we had in the quarter. And one of the other reasons for the higher profit after tax was our tax rate for the quarter was at about 24% as against 32% in Q4, which had two one-offs in terms of higher tax by our subsidiaries. So, our tax rate, as we always said, will be in the region of about 24%, 26% in that range, in quarter one it was at around the lower end of the rate we have indicated.

Just to give you more details, we are a FOREX gain of $14.5 million in Q1 against loss of about $8.6 million in the quarter four, and miscellaneous and interest income higher by about $11.3 million, aided, as I said by improved returns on investment of surplus, which improved from about 2.8% last quarter to about 4.5%.

Our cash flow for the quarter was $172.4 million, which is 94% of the PAT, quite healthy cash flow for the quarter. Our DSOs, despite our sales growth are just up by about one day, from 92 to 93 days. We continue to follow the hedge policy which we have, and our hedge book was about $2.2 billion, about 10% higher than the last quarter. Based on the hedge accounting treatment, the mark-to-market gain that we have taken to the P&L in effective hedges is about $7.5 million, and we have carried about $23 million of mark-to-market gain to results.

Just to summaries, we are back on strong growth track with strong focus on profitability and operational improvement. Our endeavor would be to continue with the same operational rigor as we embark on a strong growth journey in the FY 22.

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

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

Sandeep Agarwal: CP, congrats on a very good execution to you and your team, and particularly the utmost care which you have taken off your people, I wish you best of luck for your own health as well and for the exhibition. CP, I have just one question, I am just not able to comprehend one thing that's with the kind of tailwind this industry is seeing for the first time in last maybe two, three decades, I would say, and probably you have a bigger exposure to 5G, which may not show you immediately the same thing, but the kind of use cases which are happening in the world will give you that confidence. And the kind of execution you are doing, the kind of people you are having, one of the best team you are having, why you are not providing us any easy way of modeling your growth and your financial for the future?

I know it is against your policy, but if demand has changed in more than a decade, if pricing environment has changed for the first time in a decade, I think you should also be a little generous with the investors and you should guide us something so that we can build something in our model, and you should provide us some kind of guidance, if not quantitative at least qualitatively that you will be on top end of the industry quartile, or something like that, it will be very, very helpful.

And similarly on the margins, what is your aspirational range? With such a huge growth coming in and if your growth is going to be in double digit also, you will start now seeing operating leverage playing out significantly. So, if you can throw some light on that. And secondly, how far we are where we will see 5G picking up very aggressively? So, if you can help on that. And thanks, and best of luck for your future, once again.

Rohit Anand: Thanks for the question. So, as you know, Sandeep, we don't have a policy of giving guidance. But despite that, in the last earnings calls, CP had clearly given our goal and aspiration to get double digit organic growth and a 15% EBIT that we will go for. Now, if you look at the quarter result, and break it out, so we are 4.1% overall growth, 3.9% constant currency along with that the deal wins which we have announced on the back of $1 billion-dollar last quarter, $815 million this quarter. The momentum and the qualitative community is available, right, we are seeing broad based growth across the sector, it's not isolated to one particular deal, it's multiple deals, biggest ever in BPS, biggest ever in Healthcare. So, the commentary from that perspective is available and we do talk about the details around it. So, that's currently where we are. And given the 1Q and the momentum, including the deal pipeline that we see, we are pretty sure this trajectory will continue to expand further. So, that's on the revenue side.

And similarly, on the margin, as you rightly mentioned, we have executed 15.2% in 1Q. And with the revenue growth leverage, operating leverage, that's the tailwind that Milind indicated, we will continue to drive our operational productivity that we have driven last year where we invested a lot in that, including the leverage, we will be able to manage the headwinds that we see and continue to drive that upside as we move forward. Given the policy we don't give guidance, we will continue with that. But we give enough qualitative commentary and audits that should help you and the peers. That's how I put it.

On 5G, I would like Manish to be invited here. Manish, can you give a little bit of context to Sandeep on 5G and our development there?

Manish Vyas: Absolutely. Sandeep, thank you for that question, and appreciate your kind words. There are two things, transparency in terms of our 5G strategy as well as consistency in terms of what we have said over the last few years on our perspective on 5G and why we are, A, very positive about it; and at the same time, what exactly is our framework. So, just to remind all of us, our framework for 5G is that we will continue to do transformation work for 5G for the telcos, both in terms of network as well as the digitalization that is needed for 5G, whether it is cloud or on the systems underlined. Number two, we will do 5G for the ecosystem. And number three, we will do 5G for enterprise enterprises, which is what you are referring to as use cases and you are right, there are plenty of use cases emerging. So, as far as our CME business is concerned, I am happy to say two things right now, one, as our strategy has been and our perspective has been that 5G is not about just network deployment, it is an overhaul from our complete transformation within a telco, I think our strategy and our investments are playing out quite well. And you will continue to see the results of that as we continue to sign and scale these projects around 5G. I am also very happy to report that 5G is pretty much now deeply integrated in every single telecom transformation project. Just to make it even better, I believe that this year, almost 60% to 70% of new signings are going to be built around either integrating or enabling the 5G, together mind you, with a scaled adoption of the cloud architecture as well as driving a greater intelligence into the network systems via our analytics and data analysts and AI. So, that I think is, you have all been asking for a while, and I am very positive that this is the year of reckoning in terms of as we go along what you have seen in quarter one and as you continue to keep looking at our pipeline, the story is playing out.

I must also remind that we have also been very clear about not just what we will do within 5G, what we will not do. We had said we are not going to go for high volume, but very low margins in many markets. We remain very focused on that. You all have clearly advised; we are very clear on our game plan and strategy there and we remain focused. Our 5G for enterprise use cases are getting fantastic response in the marketplace. However, we believe that story still has to play out and it is still not ready for primetime for some time, because it will start getting more complex, and it involves a lot of other architectural changes, not just in the telco but also on the enterprises side. And I am reasonably sure, as and when that story shapes up, company will continue to remain at the forefront and from a leadership standpoint. I hope that helps and if necessarily, we can always do an offline and give you more information.

Moderator: Thank you. The next question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: Thanks for the opportunity. And its pleasant to see that this time the performance is all round, not just in sales or margin, it has come in both the parameters as a whole. The first question, Manish, again to you on the 5G. So, I think last two quarters, you were saying that a lot of discussion around 5G with the clients have started, maybe in terms of small size deals as a whole. But the way we look at and read the transcripts of the OEM on the telco side, I think their order intake on the 5G equipment has also started improving. So, is it fair to say Manish that by the year end, there could be larger deal conversions which can happen around 5G and your order intake on the telecom and communications start inching up and may pick up the pace starting from FY 2023 as a whole? And this could be growth accelerators, starting from FY 2023. So, some color will help as a whole.

Manish Vyas: Sandeep, again, thank you for that question, and very insightful. I think it's important to recognize our role, our strategy and our positioning in the ecosystem. It's very clear, our customers are very, very clear about that positioning; they know exactly what we stand for. What we stand for is a more integrated holistic transformation, really our four big levers there. Telecom companies clearly recognize that for them to beable to generate a greater momentum on both their enterprise and the consumer business, they need to continue to transform their customer experience. If you really see the acquisitions and the integrated story that we build, is all directed towards the 5G enablement in that space. It's not pure play network, but it is really a transformation around bringing in more digital in that space.

Moving leftwards, we are then talking about driving a greater product and product engineering around 5G. I am happy to report that that story has started shaping up quite well. Our engineering business, our product development business, both for the ecosystem as well as for the telcos is seeing pretty good growth, there is a good solid demand, I think there are various conversations happening, both on the device as well as on the software and equipment side in that area.

Number three is where we are talking about the new digital infra which is really what you are talking about the OEM orders and the stuff. In that ecosystem we have decided on what we will do. We will play very big on OSS orchestration; we are building IP in that space as well as we speak, we are integrating a lot of those systems, we are focusing on core. For example, one of the very interesting case study shaping up in the US is where they are helping a new operator, integrated their 5G architecture, test and certify that and that's a very successful case study that we have for the last few years. And then of course we continue to do integration around ORAN. But we are at the same time very clear that we are not going to get into the low margin, high volume field type activity except in some cases where it is very integrated as part of our deals. So, that is the third thing.

And the fourth is a more inherent digital core, which includes our transformation of their underlying systems. All of those are absolutely at this point, I'm just giving you a more detailed answer and some of this could be an expansion to the previous answer I gave, Sandeep. We are clearly busy across all the four areas, not just in, like I said in the last two quarters in conversation, but starting to close those, like I said, 60% to 70% of all our new signings are already showing a trend that it will be in the 5G and transformations.

Sandeep Shah: So, I think, Manish, your discussion clearly implies that the deal activity on the 5G has started moving up. So, can we believe that discussion may result into even a larger TCV wins for Tech Mahindra or you believe the TCV win may be a smaller in size, but maybe more consistent over next two to three years?

Manish Vyas: Absolutely, I get it. Our larger deals predominantly are already transformation oriented.

Sandeep Shah: And you expect more to close on a consistent basis going forward?

Manish Vyas: That absolutely is the intent.

Sandeep Shah: And just in terms of the question about the guidance, Rohit, what we have said is the double-digit organic growth as a whole. So, now with the good start, where we are at close to mid-teen kind of a growth for the first quarter on a YoY, it looks like for the full year also achieving a mid-teen kind of a growth may not be a big task, including the inorganic as a whole. So, is it the right way of looking at it as a whole? And second question in terms of margin. So, I think, yes, the delivery execution is good. But attrition is a big challenge as a whole, there for us it's not only attrition is higher, but the utilization is at an all-time peak, which could be counterproductive to each other as a whole. So, in this scenario, you believe lifting the margin may not be an easy task going forward and there could be a possibility of second round of wage hikes or you believe attrition can be well managed and utilization can also be well managed going forward as a whole?

Rohit Anand: On the growth side, first, if you look at what we said earlier, we said organic double digit with 1Q results and the deal win momentum continued, and the view we have in the pipeline, definitely, from an aim and visibility perspective, we see an upside to that case, right, that's where we're kind of looking at. And the good part, as Manish mentioned, the results that you see on the communications and media, and entertainment space is also rallying a similar growth trend, right, which is helping overall. So, we will continue to see an uptick there. And as we keep on progressing in that journey, we will keep on updating where we stand on that path, right. So, that's kind of on the growth side. Second, on the margins, while we've done 15.2% in the current quarter, we definitely see headwinds to the point you're trying to make, which will continue given the demand environment we're in. But we've very well-articulated and discussed our action items to have tailwinds to offset that and manage it efficiently. So, we have incremental levers that will help us position ourselves in that journey as we move forward, and in our discussions and in a previous conversation also, it's a long term journey for us, it's not current quarter, it's not next quarter, we will sequentially continue to work towards the productivity levers even if utilization is high, we have other measures that we have significant headroom to work with, and we will continue to deploy it, an example we've given is on our strategy change on M&A side where we are centralizing most of the back offices. So, projects like those have been identified and well defined with ownership and outcomes that we are confident to deliver that tailwind as we move forward including the operating leverage that we'll see with the volume growth. So, hence, that gives us the comfort on incremental progress that will continue to make in the journey on margins.

Sandeep Shah: And just the last question on the order intake with the demand picking up also, the telecom, communications growth may be better because of 5G and the other transformation which Manish has spoken about, one can fairly say that our new business, TCV wins can be now approaching a new normal of close to around maybe anywhere between $700 million to $1 billion, most of the quarters going forward, or do you still believe it is too early to call out this trend as a whole?

Rohit Anand: I think obviously, I won't again give a guidance, but what I can say is, pipeline is good, the momentum is strong, as you heard from Manish, and you probably hear from other leaders as well, and you heard from CP, so that's reflective of how we look at the future. But, the deal closure timelines vary from a time-to-time perspective, but given the pipeline and reflection of that convertibility, we are confident that we will continue to be below the normal average that we had earlier. So, we see that trend playing out as we move forward.

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

Pankaj Kapoor: Manish, again on 5G, sorry to persist, but just a clarification, the way you describe 5G is now getting integrated in all the deals that you are seeing in the market? Does this mean that the spend is not really as much incremental but is more replacement of existing dollars? And if I just take that logic further, does it mean that the reported growth in telecom, obviously will accelerate, but may continue to lead the overall corporate growth if you can clarify that, please?

Manish Vyas: I think as far as the latter part of your question is concerned, I'm not sure I can comment on that, I don't think that's how we look at anything. But to your question, integrated 5G story is one of the transformation program that we have. And that continues to scale. That continues to be new set of capital expenditure projects that we are deriving the value from as far as the telcos are concerned. But I think you all know and we have been saying it very clearly that the telcos have always been allocating their total CAPEX as a percentage of their revenues; it's not that they are spending 30% more than the previous years. Most of them predominantly have kept that line flat, and hence, there is a repurpose of that money from what they were doing earlier to two or three things, whether it is cloud, whether it is 5G network, or for that matter, data transformation. And all of that is stitched together to direct a more intelligent network, which is built on 5G core. That exactly is the strategy that we are mimicking, because that has been your company's key strength of aligning with how the telco strategies work. So, that's the strategic part of the answer. As far as the upsides are concerned, I think we've been very clearly saying that our non-5G revenues will continue to grow as well. Our legacy will continue to remain under challenge and we continue to replace that with new business, will be in the single digit growth area, but as the 5G revenue kicks in, we will start scaling our revenues into a double-digit kind of a trajectory. And we remain very positive on that. So, more the merrier, no doubt, but I think we are very happy with the execution of our overall strategy at this point.

Pankaj Kapoor: My next question is on the technology vertical. If you can give some sense of how is the client concentration there, I mean, is it dominated by a few very large accounts, in a sense in terms of how sustainable is the growth there?

Rohit Anand: Maybe I'll start off and maybe hand over to Jagdish to add on, Pankaj. First, simple answer is not highly concentrated, quite spread out. So, there's no concentration risk there. I think the biggest customer as percentage of the total vertical, would be probably 15%-odd broadly. So, I don't see that as an issue. And that engagement journey with all those customers are gaining traction quarter-over-quarter as CP mentioned and we're seeing a lot of positive progress there, which will continue to reap benefits, including all the pillar penetration, as you know that we have defined five core pillars from offering perspective, we see that growth across those five pillars, not isolated to IT transformation, it's across the pillars that we have. So, that's a good story, given its broad base, both from an offering perspective, and it's highly kind of broad in terms of customer orientation perspective as well. Jagdish, would you like to add anything on top?

Jagdish Mitra: Yes, sure, Rohit. So, I think, as Rohit said, it's not definitely client concentration, it's not a challenge, we are quite broad based on that. As far as the growth is concerned, it's been driven by three areas, primarily, obviously, a lot of engagement with hyperscalers, an area of work with product engineering, and the third area being primarily our investments and build in the areas of semiconductor and the way it's starting to play out. We see that as a critical driver. I think we expect this growth momentum to continue, because we think that the growth is going to be driven by revival across the globe. And also, you know, the pandemic and geopolitical impact of it, which is primarily focusing lot of offshoring, and also supply chain related opportunities that are coming across in the High-Tech area. So, we see all of that, but also the five pillars that Rohit talked about, including our new age BPS and cloud and DNA and digital engineering driving the growth.

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

Manik Taneja: While it is good to see the improvement in terms of the order intake over the last couple of quarters, just want to understand if that is enough with regards to our growth ambitions because when we look at someof your peers, the order book-to-bill ratio seems to be much in excess 1x, while in our case it is below 1x. Any thoughts there?

Rohit Anand: Yes, so I think you got to look at what we report. So, when we report the deal wins, we talk about greater than 5 million deal wins, and we talk about incremental growth deal wins, we don't talk about renewals here, right. So, these are all incremental to the business perspective. So, the definition might vary and hence, the correlation is not as easy to do, but maybe I'll give you a couple of more data points. So, if you look at our reported wins, in the two quarters, obviously, when we don't report less than USD 5 million, there, again, we're seeing significant growth, broad base across the geos, which has significantly gone up versus what we've seen in the past. So, hence, that's another interesting database that is coming out with demonstrates the growth that we're seeing. But broadly, it's a comparison that you can't do given the definition difference across the board.

Manik Taneja: I also had a follow up question related to margins. So, if you could call out the bridge for the factors that affect margins in the coming quarters, and also help us understand the levers that you think will help us build up further on these margins for subsequent quarters despite the tight supply side we have?

Rohit Anand: So, let's look at maybe the headwinds first. If you look at the challenges on what we see from a margin perspective, I will say we will have a supply side talent situation that will continue in the industry, which we have as a focused strategy as I articulated before, to kind of manage and be ahead of the curve there. So, that's kind of first area that we look at. Second, from a challenge perspective, as we move forward, continues to be travel coming back. So, if you look at this quarter as well, the travel is not yet back, some of the regions are getting vaccination drive, true, people have started moving around, if you look at the data from an aviation perspective, the takeoffs are almost at a 60% to 70% level of 2019, so hence, getting back to normalcy, so that will get to customer travels, etc., So, that's another headwind that potentially will come as we move forward. From a tailwind perspective, obviously, growth is positive for us with all that we're seeing from a pipeline deal win perspective. So, that gives us the operating leverage. That's a strong one. From a productivity standpoint, the journey we did on automation, the journey we've created digital assets helps us on that journey, strongly on all the space including IT and BPS, where we will continue to digitize a lot of our operations that gives us the upsides. And then if you look at our offshoring also, we've seen substantial growth there, from year-on-year and even quarter-over-quarter perspective. And as compared to the industry, we still have headroom there, right. So, that's another journey we continue. And I mentioned earlier on the G&A centralization initiative for all the portfolio companies that we have. That's another one. So, I think we have significant actions there that we'll continue to work on and drive execution on, which gives us the view and the confidence, as we mentioned earlier, it's a long-term journey, and we will continue to work on it and get better incrementally as we move forward.

Moderator: Next question is from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Two questions. Firstly, on margins, are you also baking in any incremental interventions in the coming quarters which are probably leading to margin outlook remaining unchanged despite a very strong performance in 1Q?

Rohit Anand: So, again, from an outlook perspective, I will reiterate that we're not giving an outlook, we'd mentioned we will deliver 15% earlier, and I'm saying that we will have clusters to that, we're looking at continuing to drive better results as we move forward, but I'm not calling out a guidance there, right. So, in that perspective, as I mentioned the headwinds and the tailwinds that give us enough confidence on the progress that we'll make in that journey.

Gaurav Rateria: Second question is on the pipeline. You have a very, very significant deal wins in the last two, three quarters. So, after the deal wins, typically, the pipeline sees a dip. So, just trying to understand better how your pipeline looks versus last few quarters and what really needs to change within the pipeline for you to be able to get to a double-digit growth in the communications business, because your win rates are already very strong, right, so ideally, the things have to change on the pipeline side, so just trying to get a better color around your pipeline, especially in the communications business?

Rohit Anand: Sure. Maybe, Manish, do you want to answer given its more directed to comms, why didn't you take it on the pipeline concept?

Manish Vyas: Absolutely, Rohit, my pleasure. Thank you for that comment on the deal wins and we are very happy about the way the deals are fructifying for the last few quarters. I'm happy to report that the pipeline continues to look very robust, because both the programs were running in parallel, the task of continuing to create proactive proposals and pipelines around our transformation bets, at the same time, whatever deals that were in the funnel to continue to engage and ensure that the clients close those. So, with the efforts and the investments that we have made, particularly in the last two or three quarters, in our clie nt engagement program that we've put together and categorizing our account relationships into areas where we have a greater potential to get a tailwind, we continue to build a pipeline across all our theaters, whether it is APJI, EMEA or Americas, our funnel continues to evolve into a pretty healthy trend.

Gaurav Rateria: Any quantification around pipeline versus last year or last couple of quarters that will be helpful?

Manish Vyas: I would even give you better than that. I think overall our absolute pipeline is maybe at an all-time high in comparison to last year or even before. But what is more important is, I am emphasizing on this word, I'm sure you'd appreciate it that, our qualifications of that pipeline has even further improved, become a little bit smarter about what are the areas that we take versus we don't. Even that qualified things which we are very clear that is aligned to the clients' strategy and our strategy, even that overall trend is even better than the absolute number. So, percentage wise, I don't have the numbers off the hand, but we can provide you.

Moderator: The next question is from the line of Rishit from Nomura. Please go ahead.

Rishit: Just two questions, just reiterating a little bit on the guidance, right. Now, given the qua lity of the deal pipeline or deal wins for the last two quarters, right, stronger pipeline and stronger 2Q, 3Q essentially, what stops us from giving a more definitive guidance. And I think you also talked about 5G which could be a year of reckoning, right. So, any anything that is more like a caveat which sort of stops us from giving a more definitive guidance versus I think last time you used to talk about a double digit more or less?

Rohit Anand: It's more of policy that we don't give guidance. Despite that, I think we've given an indication for this year when we started in 1Q that will be double digit organic, now, based on 1Q and what we see moving ahead, what I've indicated is, we're seeing almost all verticals being in the double-digit zone, right, so, comms, as Manish mentioned, has moved from high single digit to double, and similarly, we see similar traction in the enterprise side, so hence, that's looking favorable. And we've also mentioned BPS, which has a stellar quarter, the visibility looks very positive. And we're looking at industry-leading growth there. So, I think from a narrative standpoint, we are giving a visibility of what we see in the future given a policy of not giving hard guidance, we don't want to do that. That's where we stand.

Rishit: Just if you could provide us any color on the hiring plans, both onsite, offshore, that will be helpful?

Rohit Anand: I will invite Harsh to take that question. Harsh is our Chief People Officer.

Harshvendra Soin: Thank you for asking that question. Clearly, we've stepped up our hiring engine in this quarter not only by making sure that we have enough and more recruiters on our road, but also stepped up our partner, whether they are RPOs or others. We are very confident that we will hire significantly both of our laterals, and as you would have heard earlier, CP said, that our fresher intake is going to go up significantly. And you've seen what we've done in Q1, but we are going to significantly take it up in this year.

Rishit: Is that a number that you're alluding to or?

Harshvendra Soin: Well, I would rather say that we would follow the trend that we've done this quarter and if anything, enhance it significantly.

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

Surendra Goyal: Rohit, just wanted to understand if there are no one-offs in the margins that we should be aware of, right, and I was just looking at the margin for standalone and consol and the margins of the difference despite standalone being 80% of consol revenues and hence the question, could you just assure that there are no one-offs in the margins and something that is more recurring in nature?

Rohit Anand: Sure, when we look at the P&L across the lines, we do have plus and minus which kind of nets off. So, at a net off level, we don't see significant one-off that will give us tailwind or headwind. So, from a margin perspective, it's quite operational, right. That's the way to look at it. But from certain line aspects we do have, but that doesn't drive the overall result.

Milind Kulkarni: We have certain write offs of investment in subsidiaries. And obviously that means there is a corresponding credit on the other side. So at the consolidate level, there are no write-off, but at the standalone level, there are certain write-off. So, that's the difference you see in the margins in standalone and consol.

Moderator: The next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

Rishi Jhunjhunwala: One question on your deals, right. Your average deal win over the past two years or so has really doubled from the average $300-odd million that you just spoke about that. Just wanted to understand has the tenures or TCVs of those deals also gone up accordingly or is it more that the quantum has remained the same?

Rohit Anand: There's a little bit of disturbance but let me articulate what I got. Your question on deal wins value, which has gone up significantly over the last few quarters to last two quarters and is there any change in the tenure of these deals, is that the question?

Rishi Jhunjhunwala: Correct.

Rohit Anand: No, from a deal tenure perspective, and the way we are reporting, we don't see any meaningful or significant change here and the average tenure continues to be the same.

Rishi Jhunjhunwala: Just a follow up on the previous question, right, on the subsidiary profitability. So, you've talked about improving profitability in the portfolio companies as a lever in the medium term. I could also see apart from the difference between consol and standalone, which we talked about is probably because of write -offs. Could also see that your minority interest for the first time in many years has actually gone into negative. So, is this something which we can assume to be more sustainable going forward as well in terms of improvement in profitability of the portfolio companies or something which is mostly what we are discussing?

Rohit Anand: So, maybe subsidiary and consol, the way to look at it is maybe not the right reflection of portfolio company performance, because a lot of the business that we drive through the portfolio company is through synergy and the value that we get on revenues, they add on the other entity. So, if you look at entity-to-entity there, you won't get the right comparison. So, hence you to look at the integrated portfolio company, which will be across multiple entity stream, right. So, hence, that's probably an indication, but that can drive wrong answers also sometimes, right. So, while this time you're getting that answer, but generally that might not flow through based on actual operating results of the portfolio companies.

Rishi Jhunjhunwala: Do you think that it will not reflect in minority interest as well? I can understand standalone versus consol but at the end of the day minority…?

Rohit Anand: So, those are only legal entity performances. But there's a lot of businesses those entities will drive and enable sales across other TechM entities, right, because that's the synergy case that you get through that capability building, for example, I'll give you a couple of them, the acquisition we did on DigitalOnUs, standalone that entity might perform particular financial, but the deal that helps win TechM on customer engagement that we are already on, that really is part of the synergy case that we try to drive through that and that's not going to be built in the legal entity, right. So, it's not the complete picture that you get.

Moderator: Ladies and gentlemen, due to time constraint, that was the last question. I now hand the conference over to Mr. Rohit Anand for closing comments. Over to you, sir.

Rohit Anand: Thank you. So, again, I want to just reiterate, thank all of you for your support to the company, your company has delivered great quarter, revenue, the highest we've seen in any quarter, highest INR PAT, EPS is highest as well at 15.3 and our deal wins are quite spread out between the verticals we have, including the geos, where we've seen growth which is broad-based. So, thanks to all of you for all the support and thanks for joining for the questions, look forward to the engagement. Thank you.

Moderator: 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.

Note: The above transcript has been edited for better readability

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