"Tech Mahindra Limited Q4FY21 Earnings Conference Call"

April 26, 2021

MANAGEMENT: **CP GURNANI** – MD & CEO, TECH MAHINDRA LIMITED
L. RAVICHANDRAN – CHIEF OPERATING OFFICER
MILIND KULKARNI – CHIEF FINANCIAL OFFICER
HARSHVENDRA SOIN – CHIEF PEOPLE OFFICER
MANISH VYAS – PRESIDENT (COMMUNICATIONS BUSINESS, MEDIA & ENTERTAINMENT BUSINESS), AND CEO, NETWORK SERVICES
JAGDISH MITRA – PRESIDENT (ENTERPRISE BUSINESS)
RITESH IDNANI – PRESIDENT (BUSINESS PROCESS SERVICES)
VIVEK AGARWAL – PRESIDENT – BFSI, HLS AND CORPORATE DEVELOPMENT
ROHIT ANAND – GLOBAL BUSINESS FINANCE HEAD
SIMMI DHAMIJA – CHIEF TRANSFORMATION OFFICER

Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q4 FY'21 Earnings Conference Call. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. CP Gurnani – MD and CEO, Tech Mahindra Limited. Thank you, and over to you sir.

CP Gurnani: Good evening, good morning and welcome to Tech Mahindra Q4'21 and Financial Year '21 Results. Thank you all for joining us today. I know for some of us who are in India and in many different parts of the world this is a very tough period owing to the wave-2 of the COVID-19. I sincerely pray for you and your families to remain safe and healthy.

We're meeting again after three months. While things have changed, but it is also more important to remember that the priority of Tech Mahindra has become more about safety and wellness of our employees, their families, our clients, our partners, and that has become our top most priority as we speak. Your company has taken ownership of vaccination drive for our employees across multiple locations. We have rallied together with Mahindra group to make sure that there is availability of caregivers, thanks to some of the work our Tech Mahindra Foundation has done on the healthcare academy. We are working not only with Mahindra group, but also with the state governments and the local government regarding medicine availability, plasma donors, doctors, quarantine time centers, and essential supplies like oxygen cylinders. We are also working with some of the leading hospital chains to convert our facility into COVID care businesses or COVID care unit.

Over a period of time you start realizing what a small contribution can make a difference. There's a voluntary program which is really, really a small contribution we started five years ago called "Associate Welfare Trust." In the last one year, the trust has now provided majority of funds to families or dependents or associates who have got impacted. Tech Mahindra Foundation and particularly very proud because they've been helping over 2 million people and they run more than 350 COVID relief programs.

So, all I want us to remember that we are committed to individuals in the company, we are committed to our customers, we are committed to the society and to the nation, and we are doing everything possible to help fight this pandemic together. Though from an operations perspective, the impact is very minimal. Because statistically our number of absenteeism of people who are either impacted by COVID or who had family members impacted Pune and Mumbai which are going through the worst way, the maximum absenteeism or planned leave was only up to 1.5% of that centers or that areas' total number of employees. As you know, Tech Mahindra has global delivery centers in Philippines, in Asia, in India we are in Trivandrum, we are in Chandigarh, basically in all tier-two cities, then in Europe, US, Canada, Latin America, we have development centers. As a matter of fact, when Vivek Agarwal talks about some of the acquisitions, you would realize that we also have now expanded our reach in Mexico. So, in general, Tech Mahindra is able to give seamless continuity and is able to serve all their customers, but always, it's of the employee wellness of the customers first.

“Quarterly Performance.” I know we have already shared with you that the revenue of almost 1,330 million, quarter-on-quarter growth of 1.6% for Q4, EBITDA at 266.1 million, QoQ 3.5% growth and overall, satisfying quarters, satisfying years. Because last year, if you remember, we had spoken to you and said, we will have a three-year plan. First year was what I had called the repair phase, second year was what I called rally, third year was what I had called rise, which is acceleration. Your company has focused on balancing the growth between communication and enterprises, we are going to work very hard, at least L Ravi, who's our Chief Operating Officer and Simmi Dhamija, who's our Chief Transformation Officer, both of them are on the call, but they have done an incredible work at looking at our margins, looking at an EBITDA improvement program, I think our operations team has also worked very hard to focus on the free cash flows. So, overall, focus on operating metrics, focus on balancing the growth, the company is now poised for a much better year as we go into FY'2022.

What makes me feel a little more confident is really uptick in the amount of deals that we have signed, we did about a billion dollar plus compared to the previous three quarters where we were more like $400, $450 million, so TCV of billion as we go into FY'2022 to deliver potential deal signing in the next quarter also of the same magnitude only says that there is a pipeline, there is a deal momentum, there is an execution momentum, and hence, we feel confident that our growth will be double-digit. And clearly, the company is also focusing on improving our customer success rate, we are also looking at further levers for profitability, we are also overall happy that your company continues to be focused on being a company with a purpose, we have talked about our focus on CSR, ISR, the individual social responsibility, your company continues to be one of the most recognized companies as sustainable corporations around the world, we are particularly proud of the internal movement on sustainability and also getting recognition as Global 100 for sustainable corporations.

So, it is definitely a pride that your company on ESG leads some of the world's best standards. I know there is a lot to be done for all of us together both on growth, operating metrics, improving some of our areas, particularly on what I call, revised and regenerated focus on hyper personalization, human experience management, customer experience management and that is one of the reasons you have seen some of our recent acquisitions and I will let make Vivek Agarwal carry the rationale and how it fits into our focus to increase our reach and momentum in customer experience management, human experience management, cloud and cyber security.

So, overall, I will summarize by saying, we had a steady quarter, we remain optimistic of growth acceleration or rally as we get into FY'2022. I am going to request Milind, our CFO to take us through the financials. I'm sure he will share with you record dividend that the board authorize us to declare today. Milind, over to you sir.

Milind Kulkarni: Thank you, CP. Good evening to everyone. Let me now cover the financials for the quarter and for the year ended March '21. So, as CP alluded to, we closed the fourth quarter with a revenue of $1330 million versus $1309 million in the Q3 and reported growth of 1.6% and a constant currency growth of 0.7%. What is satisfying is the growth was equally distributed across enterprise and communications. And in enterprise, our stress vertical especially manufacturing has started growing again. And this is the second quarter of consistent growth. As you know, the first half, it had really taken a hit because of the COVID.

As CP alluded that new deal wins that we had in this quarter are about $1,043 million to be precise. And again, they are also divided equally between enterprise and communications. And it's also spread both across Europe as well as Americas. So, now the deal wins are like 250 million in Q1, 400 million in Q2 and Q3 jumped to about $1,043 million.

The EBIT for the quarter is $219 million as against $209 million in Q3. So, the EBIT margin is 16.5%, which is an expansion of about 60 basis points. And the increase has come on the back of operational efficiency, delivery transformation, comprising of offshoring, increased utilization and automation and lower depreciation because of the conservative capital expenditure that we have had over last one year, partially offset by SG&A, and increase in SG&A is also contributed by increase in the recruitment costs, we have spruced up our recruitment engine in the last quarter. Now, the 16.5% EBIT margin is the highest that we have reported in the last six years. Our net profit after tax was $147.7 million as against $177.7 million in Q3. And that's primarily for two reasons; our tax provision in this quarter is higher because of one-time tax charge into our subsidiaries. Our effective tax rate normally is in the range of around 25% but the tax rate for the quarter because of this one-off is at about 32.4%. But going forward, we expect the rate to be in the range of 25%, 26%. The other reason for that is also our lower other income which we have seen in this quarter. And that's because of the lower Forex gain or actually a Forex loss, but these actually is not a realized loss, it's an unrealized translation loss. So, it's not a cause of worry for us.

Our cash flow for the quarter is $187 million, which is about 127% of PAT. And this is aided by our continuous focus on bringing down the debtor days and we have brought down the debtor days from 95 to 92 at the end of March.

Moving on to the full year performance, our revenue stood at about $5.11 billion, which is a constant currency decline of 2.5%. But that is an impact of COVID in the first half that we have seen. In the second half, we are back on growth track and that's quite satisfying. In rupee terms, our revenue is 378 billion, which shows the growth of 2.6% over the previous year.

During the year, Enterprise business grew by 1.2% constant currency term while communications business declined by 7.6% in constant currency term. And this was as I said, what we have actually experienced the decline in the first half, second half both the engines are on the growth track. In Enterprise, we have seen a growth in BFSI, technology as well as retail vertical, and manufacturing and communications, which declined in the first half are also back on growth track as I alluded earlier.

EBIT margin for the full year stands at 14.2%. In absolute term, the EBIT for the full year is 729 million. The positive for margin was largely operational efficiency, higher utilization, higher offshoring and our focus on reducing the sub cons. Of course, there were some tailwinds which came from the currency our way and lower SG&A for the full year. And, as you know, because of the COVID impact, we have seen some savings in travel and some of the utilities cost because of the work from home. This was partially offset by the revenue reduction that we have seen as I said in the first half. Now, we ended the full year with an EBITDA margin of 18.1%. Now, going forward in the next year, so we have already rolled out salary hikes effective April and then we start the salary hike letters being rolled out. And this will have some impact on the margin, but we have plans in place to recover the salary increase impact through operational efficiencies. There may be some increase in the travel cost, especially in the second half with increased vaccination in the world over. But given our exit margins, as well as our initiative around delivery, transformation, and cost optimization, and tailwinds, which will come from revenue growth, because the leverage that will come, we will get because of revenue growth, we are quite confident of achieving our EBIT margin of about say 15% for the next year as well.

Going below the EBIT line, as I mentioned, the other income for the year also was low. Other income is low because there were some one-times in FY'20, some of the profit that we have made from our couple of investments that we have made in Altiostar as well as one of the investments in our subsidiary from Comviva. Those were not there and FOREX gain for the year is lower at about 13 million as against 42.7 million.

Our free cash flow for the full year in 965 million, which is 162% of PAT and this is primarily result of reduction in DSO days by 20 days over the year. Our debtor days are down from 112 to about 92 at the end of March. So, we think we have reached the optimum level of DSO and there may be marginal increase in terms of debtors especially in absolute number as we get into a growth phase.

The board has recommended a dividend of Rs.30 per share comprising of Rs.15 normal dividend and special dividend of Rs.15. This will take our total dividend to Rs.45 per share. Now, this dividend is our highest in the history of the company. And it's a kind of indication about how we approach the future. So, this is in line with our dividend policy that we have where we have said that we will return the excess cash generation after retaining the money for acquisition and for the internal improvements.

Our hedge book is at about $2 billion with an MTM gain of about $38 million, of which we have taken $8.7 million, to be taken to P&L and balance 31 million to reserves or what is now called Other Comprehensive Income (OCI). We continue to follow our hedge policy which has served us well in the past.

Just to sum up, FY'21 has been a challenging year. However, we have come back quite strongly during the course of the year. And we look forward to continue our journey of operational efficiency and delivery transformation and deliver good set of numbers.

I think we can open the floor for the questions now.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Pankaj Kapoor from CLSA, please go ahead.

Pankaj Kapoor: CP, you had a fairly good deal win in the quarter. So, I was just wondering with this kind of a conversion, how has your pipeline got depleted or have you been able to replenish it, if you can give some color on the size and maybe distribution of the deal pipeline, that will be helpful?

CP Gurnani: Pankaj, when you look at the deal wins, about 517 million from comms, 525 million from enterprise, we expect a similar deal wins over the next quarter also, so evenly balanced and in the right direction. But maybe Jagdish and Manish, you want to add more color to the deal pipeline and answer overall what you see as the mood in FY 2022?

Jagdish Mitra: Sure, CP. So, Pankaj, hi, this is Jagdish. I think, as CP said from a deal pipeline perspective, we have a pretty strong deal pipeline going into FY'22. And we think it will primarily be driven by a lot of transformation deals from a cloud transformation perspective. So, we are working very closely with all the four hyper scalars and revival of some of our verticals and hopefully with Q3 seasonal downtown downturn of retail going off, we should see a much better conversion getting them last year. So, pretty strong pipeline, and hopefully that start to get to do a better result. Manish?

Manish Vyas: Yeah, thank you, Jagdish. Pankaj, like CP said, the deal flow will continue to remain strong. As you know, in the communications sector, we always focus on deals which are spanning across what we now call as "Legacy Modernization." The deal that we announced last quarter is probably the largest across the world, that any company has signed to take this customer onto a journey where they will transform their both business process as well as their underlying IP infrastructure and systems to be ready for 5G. We continue to work on deals around customer care and transformation using AI machine learning, and these are all becoming part of the large deal construct. Jagdish said about cloud, that continues to remain a very strong theme, we find a very large deal last quarter with an OEM to continue their three-year journey on cloud. We are also looking at some interesting deals around the network space as we speak. So, across all our portfolios that are capable to do large deals, we continue to remain very engaged.

Pankaj Kapoor: I have just one small follow up question on your capital allocation. So, the total payout this year of course was close to 40% of the free cash flow as you had alluded in the past also. Is it fair to assume that this is going to be the base going forward?

Milind Kulkarni: Pankaj, our policy is that we would like to return the cash generated during the year to the shareholders after considering the needs for acquisition and for the internal usage. So, yes, I mean, unless we see a major acquisition during the course of the year, we hope to maintain that ratio.

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

Sandeep Shah: So, congrats on a deal show. So, just a question in terms of Q2 and Q3. If you look at the new business TCV wins between $420 million to $445 million, but the same is not translating into the revenue growth in line with the industry. So, the question is, it looks like from our quarterly average of $450 million, $500 million worth of TCV wins each quarter may not be enough with an increasing base. So, how are we making sure that our deal flows each quarter continues to remain above $500 million in terms of a threshold? So, we are pleased to see that happening in Q4, may happen in 1Q, but will it become a recurring feature going forward? Because then only it looks like your growth rates may be better or inch up to what the industry growth rates are.

Rohit Anand: So, Sandeep, from a deal flow and pipeline perspective, I think already Manish and Jagdish and CP added that we are looking at a strong pipeline, and even with this quarter's $1 billion of deal wins, the deal pipeline still replenished and is looking strong. So, in that perspective, for the business and abilities there, and we are looking at it**.** So, as we go forward, even for Q1, as we have the visibility right now in what we are seeing, we are seeing significant closures coming through for us across the regions and verticals. So, be it healthcare or BFSI, we are seeing that across the board. So, as we go forward, we will continue to see better conversions. And we have positioned the organization in a way that we see the benefit. And as CP mentioned, we focused last year a lot on the repair phase, so we put the structure and the process in place where we are now seeing the deal flow being better, the conversion being there, and also the quantum of value that you see coming through, not just in this quarter but we see that continuing as we move forward.

Sandeep Shah: Perfect, okay. And just on terms of margins, if you look at Q4 deal wins are better, in 1Q we expect a similar deal flow. So, over a margin threshold which we indicated earlier of 15% will change with some large deal ramp up related cost or it may be even better with the better exit rate of Q4, which is 16.5%? And a related question, does the supply side issue worry you? Because in FY 2021 we are the only company which may not have announced the wage hikes, and the attrition across industry has been going up.

Rohit Anand: Yes. So, let me first take the first one on margins. So, Sandeep, you are right, we exist Q4 at a 16.5% EBIT rate. That when we look at next year, we have a couple of things that are playing as headwinds, and there are tailwinds for us. So, from a headwind perspective, you are right, there will be salary increases, there will be some ramp up cost for the large deals that we will keep. At the same time, we factored all that in a model, we are also looking at, as CP mentioned, in all the operational efficiency that we have been driving this year, we still have headroom as we move into next year, for that as well as some optimization at the portfolio company level that we are working on. So, between all of those levers, the interplay is giving us confidence that we will be able to get to the commitments that we have been early in terms of hiking to 15%.

Sandeep Shah: Just the last question in terms of looking at utilization, which is at very high levels of 87%. And at the other end, the attrition also going up for the industry, it's like a catch 22 situation. How will we manage this going forward?

Rohit Anand: Yes. So, I think utilization is currently at its peak. And with the deal flow coming in, you see big deals being announced, our hiring is going to be picking up, so there will be some normalization in the course of the year. But still there are other operational levers that we have on margins, so that will kind of optimize it. In terms of measures for attrition, we have taken multiple from our side. And I will invite Harsh, who's our Chief People

Officer to articulate some of the things that he has been driving from an organization perspective, that gives us confidence on how they will pan out for us.

Harshvendra Soin: Thanks. Great question. And I think most of our peers have also seen an uptick in attrition, but we have actually taken a few steps really to stem it. Of course, the first thing was that we reinstated variable pay in quarter four itself, which was a very positive move. But as CP and Milind had elucidated, we have already sort of announced salary hikes with effect from 1st April, for all bands in the company. And the letters, as we speak, are getting rolled out. But what we also did is a few other things. One is, a special additional variable payout we had actually, as you know, not given the variable pay in the first three quarters or additional special variable pay of one quarter as a bonus to band P and E, because we did see an uptick of attrition there. As well as taken some cash and stock-based retention plans for key talent, and especially in niche skills. And that will really help our attrition to come down. So, we have actually gone ahead and also added some skill-based allowance for niche skills, and project-based bonuses for key performers. So, we do believe, and we are very confident that with all these steps in place, we should be able to stem the attrition.

Management: Thank you. The next question is from the line of Rishit from Nomura. Please go ahead.

Rishit Parikh: Just one question from my side. CP, while you alluded the intention to reach double-digit, could you just help us understand the split between both telecom and enterprise? Because we have mentioned that telecom is likely to grow only 6% to 8% earlier as well, are we seeing a pickup of 5G that's driving us, giving us that confidence to hit double-digit?

Manish Vyas: I was answering that question on 5G, that if you really look at this deal that we have announced this quarter last quarter, what are we trying to do here? And this is an indication of what kind of discussions we are currently busy with across the industry. This is about modernizing their entire customer engagement platforms, particularly on their consumer side of the house, including the underlying cloud native architecture so that it starts giving them the flexibility and the hyperscale ability like what is needed for 5G. So, we have always said that 5G is not just about a network modernization, it is also about the system and the back-end process modernization. So, most of our dialogue across the board across the world is largely driven by the 5G narrative, right, barring maybe one or two regions, everywhere the primary driver for the conversation is 5G and how they need to modernize their network, and hence the rest of the infrastructure.

To answer your question that indeed is correct. You will see, maybe as we prepare for this quarter, deal announcements, the next one that we are doing will at the outset look more like an operation deal. But the underlying theme is about getting ready for serving the customers in the new modern 5G type of a world. Again, a very large, very interesting operator that we are working with. So, I think that trend will continue to be there for the next year or two. At the same time, we have also continued to start adding or increase our both funnel deal closure and revenue from the network side of the business as far as 5G is concerned. It is still a smaller deal; however, these engagements do start small, it is a sub $10 million deal at this point that one of the greenfield operators in the US has signed us for helping them integrate and test their 5G or/and type of a network. Again, it's an indication that the kind of conversation that we have been saying that we have disabled will continue going forward. So, that's really the type of stuff going on in 5G. I hope I answered your question on that, Jagdish can help you with the enterprise side.

Jagdish Mitra: Sure, Manish. So, on the growth prospects, I think fairly very confident with the coming back. One of the things that actually did not work for us in last year in our vertical was manufacturing, and banking was doing very well. So, for us, I think this year we see probably two quarters of steady growth in manufacturing. But also, in terms of our focus around aero, defense, discrete as well as process, and we are having a scale in auto which we don't think will be too big. But amongst the four sub verticals, we have launched one more sub vertical in manufacturing. Retail and healthcare, which are our top four verticals on the enterprise, we expect all four of them to start showing us double-digit growth. So, that should push the enterprise numbers more towards the double-digit number and pull it out.

Rishit Parikh: Okay, understood. So, Manish, just to confirm, you mentioned that incrementally versus the last quarter there is an acceleration in terms of the timeline for 5G. Is that a fair assumption?

Manish Vyas: Sorry, can you repeat that question?

Rishit Parikh: What I am saying is that from a 5G, incrementally versus last quarter, there is an acceleration in terms of the timeline. Is that a fair assessment of it?

Manish Vyas: Okay. That’s right, that is correct.

Rishit Parikh: Okay, perfect. And just one small question, could you just talk about the hiring trends for the next year?

Rohit Anand: We don't really give specifically around it. But as Harsh mentioned, and you look at the demand pipeline and the deal wins, right, you can correlate it. So, I think from our perspective, that trend will have to go along with the business and the double-digit growth that CP mentioned, which is correlated, right. But we won't give a specific guidance there.

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

Manik Taneja: So, my question was in regards to the fact that you have spoken about double-digit growth aspirations for the full year, how should we be thinking about it from a quarterly standpoint, given the fact that typically 1Q is generally weak for us because the seasonality. Given the kind of deal flow that we have seen this time around, should we expect that this growth will get more considerate going forward?

Rohit Anand: So, you are right, if we look at our last two- or three-years’ data, we will see 1Q seasonality, and typically, except probably last year when it was COVID it went down quite a bit. Before that, it would be around 1.5% to 2% seasonality impact going down. As we move into next year, I think, with the deal wins that we have announced and the view we have, there will obviously be a quarterly ramp up that you will see. But 1Q, at least currently the way we are looking at it is a little bit more favorable than what we have seen in the past.

Manik Taneja: Sure, thank you. And if I can laude you on the margins front, you said you are looking at 15% plus EBIT margins in FY 2022. So, if you could give us some sense of the wage increment that you have announced, and the potential impact of wage increments that we should be thinking about from margins standpoint in 1Q.

Milind Kulkarni: Okay. So, this of course is considering the wage increase that we have announced. We have factored that in, so we are quite confident that with our operational improvements that we have planned, we will be able to absorb that and report an EBIT margin of upwards of 15%.

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

Divya Nagarajan: I think to the earlier question, you talked about the first quarter seasonality, avoiding some of the negative trends that we have seen in the past. How do I reconcile it with your headcount that you ended the quarter within the last quarter, so should be expect that the headcount will ramp up as the quarter goes in? And the other related question to that is that, in addition to wage hikes do you also, therefore, as you ramp up your headcount, do you expect to see your supply costs increasing? And how have you factored that into numbers?

Rohit Anand: So, if you think about headcount, the quarter ending position we are comparing with, but as we look at the trend, we see a monthly trend to get better in terms of numbers, and similar trends will continue as we move forward. So, I think that gets correlated as we move forward in 1Q in terms of the offset of the seasonality that I mentioned. Sorry, what was the second question?

Divya Nagarajan: So, I was talking about, given that you had a negative headcount addition at the end of 4Q, would you then have to ramp up headcount addition as the quarter picks up? And what kind of an impact it would have on your hiring costs as the quarter and the year progresses?

Rohit Anand: Yes, so that's all factored in when you did the modelling, and we are talking about our view for next year. So, it would have some correlation. And even in this quarter we see some recruitment costs go up, with that factoring and the increment headcount, hiring and offers and all that is playing in. So, they will be, and we have all factored that in the model when we are talking about the comfortable view that we have.

Harshvendra Soin: If I can add, Rohit, that we are actually, for example, have already hired about 5,000 interns at the bottom of the pyramid. So, we actually see that making a pyramid even better. And that's obviously being factored in, like you very rightly said.

Divya Nagarajan: Got that. Thanks for that. And just as a follow-up, did you quantify your telecoms growth for the year? I believe you did talk about double-digit growth on the enterprise side but can tell us specifically you are targeting on the telecom side, please?

Rohit Anand: Right now, the view is double-digital on enterprise and high single digit in telecom, that blends, as CP mentioned, to a double-digit overall. That's the current we have. And as 5G accelerates to what Manish mentioned, if that picks up to the year then we will kind of see how that plays out.

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

Rishi Jhunjhunwala: Just one question on FX losses this quarter. Now if I really look at the FX movement, Q-o-Q end of period rates are flat, so it can't be translational. And on a year-on-year basis also rupee has been appreciating. So, just wondering why hedges would also have a FOREX loss, I just wanted to understand why such a large FOREX loss this quarter.

Rohit Anand: Yes. So, basically, what we have is, we have certain currencies that have moved versus the US dollar in a depreciated direction and some other currencies as well as we look at our subsidiaries. So, that has caused the impact for the current quarter, and it has the opposite impact over the last quarter, so it's translation for those currencies vis-à-vis their movement. Milind, you want to add anything there.

Milind Kulkarni: And as I clarified, this is actually, last year or last quarter also we have had a foreign currency translation gain and it's in terms of the subsidiaries that we have, we have about 160-odd subsidiaries, most of them overseas. And this quarter some of the currencies have moved against us, so it's a translation currency loss in this quarter, it's not a realized gain, so it's just a quarter-to-quarter volatility which hits us sometime. And as far as hedging is concerned, as I mentioned, we have mark-to-market gain of $38 million. So, I wouldn't really give much of importance to the translation currency gains or losses.

Rishi Jhunjhunwala: Okay. And just very quickly, can you elaborate a bit on the impairment that we have taken in this quarter? And we had a pretty large number last year this quarter as well, so just wanted to understand what are the nature of these subsidiaries or acquisitions have you taken?

Rohit Anand: So, this time what you see as an impairment, as we have already said in the past also that we continuously look at geographies where we want to normalize and rationalize our business where it doesn't make profit for them. And that we will continue to look at one of the geos, and specifically that impairment we have rationalized, restructured and taken the cost and the future deal, in terms of what deals we will pursue is being normalized to make profitable. So, because of that restructuring we will take an impairment on that specific country where we had a whole acquisition because of the changes with reductions and the rationalization that we did.

Rishi Jhunjhunwala: Sorry, I didn't get you, which acquisition did you name?

Rohit Anand: This was in Brazil that I am talking about, and this is almost seven, eight years back. And as a part of strategy, we mentioned that we continuously look at geos where we want to be more prudent on what business we take. And as a part of that I would referring to Brazil as a geo.

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

Ashwin Mehta: I had one question on the performance in this quarter. So, if I adjust for the acquisition contributions, we possibly did not show any organic growth this quarter. So, what were the negative surprises? And which segments did we see them in this particular quarter?

Rohit Anand: So, I wouldn't say there's negative surprises, but yes, I mean, from a timing perspective, the way the deals are closing and came out that we saw and hadn't factored into revenue is going to trickle down as we move forward. So, probably that timing is all it is, so we should see that come through as we move forward. So, nothing more than that in terms of any vertical that we were looking at.

Ashwin Mehta: Okay. And the second question was in terms of, like what Milind mentioned that you have operating levers at hand to manage the margin impact of wage hikes or the hiring pick up that we will see. So, if you can elaborate in terms of what are these operating levers at hand, because we have not necessarily done hiring for some time, our utilization seems to be at peak. So, in addition to these, what are the other levers that we are looking at?

Rohit Anand: Sure, I have mentioned a couple of them, I will add again. So, if you think about from a delivery and operations standpoint, from an offshoring perspective we still have room, and we will continue to drive that lever as we move forward if you compared to our numbers. So, that's something that we will continue to derive. The second area that we continue to look at is portfolio, G&A centralization, we are driving that effectively through a central team working with each and every portfolio company. So, that should also give us some headroom there. And similarly, on the operational delivery side, we will continue to drive other operating levers on managing each and every account and driving operation leverage as we move forward.

Milind Kulkarni: Rohit, can I just add something? Another thing is the growth leverage, and CP alluded to it that we are looking at a higher growth rate, and that growth rate itself will ensure that our SG&A gets spread over a larger base. And that could be a good lever, a lever which we didn't have last year.

Ashwin Mehta: Okay. And just one last small clarification. So, in terms of wage hikes, we are looking at only one wage hike this year, or there is a plan that given that almost every peers of yours is giving out wage hikes over a three-quarter duration, we might also possibly have some interventions towards the second half of the year?

C.P. Gurnani: I mean, it's difficult to answer because a lot of it, if we come up with a second wage hike, it will be mainly because the company's growth or company's performance, would be better than what we have envisaged. So, I am not ruling out a second wage hike. But at this stage, we have not budgeted or planned for it.

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

Vibhor Singhal: So, just two questions from my side. What is the hiring target for this year in terms of either lateral or freshers or the combined number that we are looking at?

Rohit Anand: We specifically don't give numbers around that. But maybe looking from Harsh or CP alluded, we are looking at lateral hires, we are looking at adding freshers at bottom level and ramping up the workforce. So, I think it's in the right trend moving upward. But we specifically don't call out numbers there.

Vibhor Singhal: Sure, not a problem. Just one more question from my side, given that in the last four quarters there has been a net reduction in our employee force, and we are looking at a double-digit kind of a growth next year. So, do you see that maybe if hiring is not ramped up in time, then our subcontracting costs might go higher, which have been stable for good part of this year. But do you see that number revising from the current levels at around 13% of revenues to maybe something higher? Or do you think that should be in that same range?

Rohit Anand: So, I think sub-con, we continue to monitor closely, and it is something that we will look very closely. But it's also a function of what the customer asks and what the customer needs and need is the subject. So, we will continue to monitor sub-con cost and we will continue to drive that like we had done last year. And there might be some quarterly variation as we move forward, but on a long-term basis that's a trend that we want to continue when we look at sub-con as a percentage of revenue.

Harshvendra Soin: And just to add, Rohit, this is Harsh. As I had said earlier also that we are infusing interns at the bottom end of the pyramid, and up-skilling them and keeping them ready for any positions that would come as we fuel growth. So, it's not that we have not taken steps, it's already there. And hopefully those people at the bottom of the pyramid would actually spur the growth numbers.

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

Rohit Anand: Thanks a lot. Thanks for all the participants for joining us today. All of us hope that everybody keeps safe. It's a phase where we have to be home, so be safe and take care of the family. Wish you all the best. And thank you for joining us.

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

Note: The above transcript has been edited for better readability