"Tech Mahindra Limited Q2FY21 Earnings Conference Call"

October 23, 2020

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Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q2 FY'21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. CP Gurnani – M.D. & CEO for Tech Mahindra. Thank you and over to you, sir.

CP Gurnani: Thank you. Good evening, good morning and welcome to Tech Mahindra Q2 FY'21 Results. Thank you for joining us today. I do know that on this particular day I have to take you back to the previous quarter when I had spoken to all of you and said, there are three phases this organization would work and look at how we grow together. The internal teams had come up with three phases with the Reimagine, Rally and Rise. And I cut the word, 'Reimagine' and I use the word 'Repair.' And that is what I communicated to you, "Repair, Rally and Rise" because to me, they are very, very important that we all realize that our own margin was a lot lower than what the industry peers were at. And we are not saying that we are celebrating victory today. We are just celebrating that the trajectory is right. Similarly, our growth has slowed down, and we have to repurpose the engine.

The third part was that we had clearly decided that we will focus on cash flow, we will focus on investment for the future, and we will repurpose the way our capital is allocated. So the basic principles of Repair, Rally and Rise, the five vectors; Growth, Profitability, Investment for Future, Capital Allocation and Cash Flow Management, I think we have done well on all the five vectors. We clearly believe that some of the disciplinary actions that we took, I shared with you that the company has internally allocated more than 40 data scientists to work with our transformation office, I think that discipline, that focus on data sciences and being able to take corrective actions online has worked reasonably well for your company.

I genuinely feel very happy that we have been able to improve our EBIT margins by 410 basis points, and we believe that our trajectory on profit improvement, there are still operating levers which we need to work on.

I am also very happy on the growth side that our strategy to work not only with our customers, but to also focus on some of our partners, has worked well.

We have seen AWS and Tech Mahindra announcing a Blockchain-based solution; Microsoft and Tech Mahindra announcing a Microsoft Business Unit, a Strategic Alliance with Google, and overall, a very, very Deep Alliance with Pega. So those are what we have actually reaffirmed the way we are going to the market with some of our partners.

With Rakuten, the CEO and the Founder of Rakuten, personally came for a press conference before his own 5G rollout and acknowledged the role of Tech Mahindra in developing technology, in being able to set up centers of excellence, and also creating an alliance, where both of us will actually do well, not only on the product side, but also on the services side.

I actually complimented your team on the cash flow management, to me cash flow management is also an area in a time when most of us are not meeting the client. It was an important feedback that whil e the work is going on, “Are you happy with my work?” “Would you support me by giving me cash a little earlier than you used to?” And as you would have seen, our DSO days have done well.

So your company continues to be focused on all those five parameters. But that is not all. We have always prided ourselves on three things. There is no business transformation if there is no people transformation. So I think your company continues to focus on upskilling as a service, making people more relevant, and the people transformation is all about delivering value to the employees to be able to work to their potential. I think as a strategy that seems to have worked very well.

We are also very proud of our culture that we are a company which is passionate, but is combined with the purpose, the purpose of leaving this world a better place than we inherited, making the company a lot more environment-friendly.

Our ESG team continue to beat and be better than the best in the industry. We benchmark ourselves with the best in the industry, and we have done extremely well on every recognition that is possible on ESG. Our CSR team continues to be a firm partner in most of the locations that we operate from, whether it is Dallas, or as much in Philippines or in India. So again, very, very proud of the CSR team, because, I mean, and their purpose of focusing on health professionals, educating and smart centers by creating employment for the local team, I think it is yielding results.

On the technology side, your company has now drawn up on that under our PCO and the map takes into account our short-term goals which is AI first, Cloud first, 5G first, at the same time, a long-term goal of space technologies or quantum computing. So the company is focusing on innovation as a fabric, but more importantly, on some of the key game-changing technologies.

So while we know it is going to be a difficult, long, uneven, a long assent as IMF call set in terms of our economy, we do know that the tech spend continues to be an integral part of every budget. We do know that we as a company with our partners, and with our own urgency to work on all the five vectors, will continue to yield good results, and I am confident that we will maintain the trajectory of growth and profitability.

I am going to request Manoj, our CFO, to share a little more detail on our financials.

Manoj Bhat: Thank you, CP. I think quickly running through some of the financial parameters. If you look at revenue growth of about 4.8%, 2.9% in cc terms, I think the 2.9% is almost equally divided between the supply side and the demand side. So some of it came back because in Q1 we had constraints because of some of our business lines not being able to operate. So we are seeing some of that come back, and, of course, the demand side recovery. CP also alluded to it, there is increased momentum.

From a vertical perspective also, I think we saw a growth across multiple verticals. And one of the things which we had mentioned that we do believe manufacturing will bottom out and that has also happened in this quarter overall, although it is just about flat in reported currency.

The other element of conversion of the funnel, I think, we had 421 million, we are back to almost previous levels.

I think in terms of color on deal sizes, I think the deal sizes have been a larger number of deals, but more medium size deals, so which, I think is a good sign that across multiple engagements we are converting and that kind of adds to the theory that I think this is something which we are seeing across multiple verticals.

Coming to margin improvements, in 410 bps improvement in EBIT margins, supply and demand side recovery were totally about 160 bps, while cost management which meant offshoring, which meant utilization, which meant reductions in subcon, etc., was another 160 bps. We also had 70 bps come from normalization of the seasonality because Q1 is a seasonally weak quarter in our mobility business as well as visa cost is absent.

So, I think all in all, as CP also mentioned, it has been a strong recovery.

The other side, if I go down below the EBIT line, we had a FOREX loss of 5 million, was a gain of 11 million in the last quarter, mainly due to translation losses due to the weaker dollar. Miscellaneous income was lower because we had some one-times; one was the sale of the Terra pay subsidiary in Comviva; the second was the interest on the large tax refund which we had received, which are not there in this quarter.

Coming to the cash side of things, we have a cash balance of about 1.5 billion. Free cash flow for the quarter was about 236 million, which is our second highest ever. And our DSO at 97-days is the lowest in 15-quarters. And this has again been a good performance across geographies, across customers, across verticals.

In connection with that, and keeping in mind what we had talked about in terms of capital allocation, I think we have announced a dividend of Rs.15 per share, and I think that is what the team is committed to that, as and when we get an opportunity, we will try to see how much maximum of excess cash we can return to the shareholders.

I think apart from that, our hedge book stood at 2.4 billion, which is booked at pretty healthy rates, I think that data is there in the fact sheet.

Summarizing all this, I think as we look at the future in terms of margin improvements, I think it has been a journey which has begun really well, but there are synergies around changing our operating model, and coupled with improving demand environment, I do believe in at least sustain margins going forward, if not improve there, and that is something which we will try and see if we can offset all potential costs returning as they return through the quarters and still try and sustain and improve margins going forward.

With that, I will throw the floor open for questions. Operator, back to you.

Moderator: Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: CP, I have only one or two small questions. First of all, if you see in this quarter, we have done excellent performance in spite of the fact that we have only three verticals firing in a big way, other three, although did well but not as good as you know, technology, banking and retail. So, one-third of the overall business has done extremely well and that has led to such a superb growth. So, what is your sense on the balance of the vertical, when will they come and chip in, that is number one? A related part to that will be when do you see 5G actually firing? I understand that it is some time away, but in the meantime, what will help in the communications side? And the second question which I have is that how do you see this DSOs coming if it is down for the whole industry? Generally, the sense which we get is there are ways to look at it; one is maybe lower growth in previous quarter and better collection this quarter that could be one reason, or it also reflects the good health of the client and also their intent to pay quickly and take more services in future or going forward making bigger spend, is that a good correlation or you are seeing it is too much to think in that direction?

CP Gurnani: Sandip, again, thank you for your support. I am going to actually do a good job of involving my management into this. So, the DSO days, can Manoj, you take this up on Sandip's question, "When do you see the other cylinders firing or other verticals firing" "And what do you look at communications and 5G," I will let Jagdish and Manish Vyas answer it. So Manoj, do you want to lead please?

Manoj Bhat: Yes, thank you, CP. So I think if we look at the DSO part of it, clearly, some of it is contributing because of the reduced working capital need, which has happened because of the declines we have seen. But more importantly, what I see is across customers, I think if I go back to Q1, one of the things we were thinking about is, whether we will see actually an elongation in collection periods. And, frankly speaking, I think we have seen across the board customers are more than willing to help in terms of payments. I think we have seen internal rigor also help in terms of that awareness, that communication, this is something which is very, very important in these troubled times. So, to me, I think it demonstrates that many of the services we are doing are very, very essential to our customers. And combined with more heightened awareness internally, I think that is what has driven some of these results. As we go forward, as the revenue growth comes back, maybe some working capital increases will be there. But I am hoping that the awareness and some of the process changes we have made internally, I think that will stay. But definitely I think as revenue growth goes up, we will see working capital increases happen. So that is quick one on DSO. And Manish, I will hand it back to you to talk about communications, and how do you see that evolving?

Manish Vyas: Absolutely. Manoj. Sandip, thank you so much for your question. I think I will put it this way. We did have a lot of reversals in Q1, largely because of the impact of the decision that the service providers had to take. They were forced to take in terms of network rollouts, as well as their ability to enable in time the call center and the customer experience work. At the same time, some of the discretionary spends also were pulled back. What we have seen this quarter however, on a different note is we have almost double the size of the number of new deals that we have signed in Q2 as compared to Q1, number one. Number two, the funnel across a broad range of transformation areas does look pretty decent right now. We are talking about helping service providers transform their entire 5G stack on the process and system side, leading up to subscriber management to the B2B use case management, all the way down to OFS. And, of course, we continue to assist customers. I mean, this has not scaled as much and honestly we do not know whether that is a 2021 feature or will continue to lag a bit depending on how the overall economy for the B2B business particularly scales up for the service providers. I want to go back and remind you all that one reason why all of us were initially surprised, not as though is that the service providers will see some pressure due to COVID was largely because the B2B business was going to get impacted, and it did. So that said, today where we are with the overall holistic transformation of service providers, 5G and even beyond, I think we are looking at some active times in the next three to nine months in terms of the kind of business we will do in both network, as well as on the core digital transformation. So I would say, watch out for the space, I am quite optimistic that our funnel indicates that the discussions are at advanced stages across multiple accounts and multiple geographies. I think, way back we had said that 5G is not just a one trick pony. 5G is an opportunity for service providers to relook at everything from process to operations to systems to of course the network architecture. And hence, it is not just one part of 5G that we need to watch out for. I think it will be a combination of several of those things. So, I would say that we are quite busy addressing these needs at this point over the next several quarters.

Jagdish Mitra: Sandip. thanks for the question. Let me answer your questions around the verticals, beyond the ones that fired this quarter. And also good segue from what Manish mentioned on 5G is the traction we have seen on the non-communication side of the verticals. I think it is too early to say that the pickup is very high. But at least we should be able to tell you that this quarter, for example, we signed up just in the manufacturing sector, three solutions and they are by no means large deals, but they are pre-solutions in Europe, and one in US for us to enterprise put together a 5G solution as the infrastructure and the applications on top of it. So it is starting to move in the right direction. And I think our investment and development in this and you will hear more about it as we start to get into the quarter that we will continue to try this channel of 5G across between communications as well as in the enterprise side of the business. As far as the other verticals are concerned, obviously, the first vertical that we are focused on to revive and bring the growth back in manufacturing. And I think this quarter, primarily, the manufacturing was slightly above the last quarter. So it has bottomed out to a large extent. And we will start to see growth in this. And growth across primarily being driven by engineering services, in our auto sector, which had slowed down. So a lot of the projects had got deferred and that business across autonomous, across EV, across ADAS, all of these are coming back, even industrial on B2B is coming back. So, we expect both in US and Europe Q3 to look quite positive on manufacturing and come back on the growth part. The retail segment, which is our next vertical that we look at, as something that we look at opportunity to grow. I think the COVID has exposed a lot of opportunities in digital, retail primarily around omni-channel, omni-commerce where we and our BPS teams primary as a service, are starting to engage with our customers. It is fair to sort of segment it in two blocks; one is the eCommerce kind of segment, and which is obviously showing growth, the online segment, and then there are the fixed retail businesses that are obviously in a hurry to move towards the online world, where we have quite a few of our customers were starting to move towards enabling their supply chain and enabling their online and not just omni-channel, but omni commerce solutions. And we have a fairly large business in the

CPG segment, which has done reasonably well, and we think that will continue to show robust also. So all in all, next quarter onwards, Sandip, you should start seeing growth in a significant way, both in manufacturing as well as in retail.

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

Pankaj Kapoor: Manoj, if I look at your special dividend and if I assume that your regular dividend should be similar to what you paid last year, we are looking at almost anywhere between 60% to 70% of payout. So just wanted your thoughts a) in terms of, do you see this is a sustainable level of payout that you would like to probably go with, any kind of a contemplation as you can do there as a base? And second, what was the process of deciding between a special dividend versus buyback?

Manoj Bhat: I think, Pankaj, I will take the second one first. I think what we did was a very simple thing looking at a profile of all the shareholders and said, what is the most effective way of returning money considering whether taxes paid in the hands of the company or of the individuals. And for us, the result came out as a dividend. And that is the decision we took. I think to your second point, obviously, the final dividend decision is a different decision, which we will take later. But we have always maintained the goal of the management team to return excess cash after reasonable investments, which historically have been about 30% to 35% or so in terms of M&A dollars and other investments. And to me that is something which we will keep evaluating as things go on. But we have not formally put out a number but that is what I can say at this moment.

Pankaj Kapoor: And my second question actually is on your margin trajectory. Of course, you did a fantastic job in the current quarter. But do you think a) the kind of supply side requirements which are coming up, many of your peers have announced wage hikes, etc., so going forward, how do you see this level sustaining given the headwinds from potential wage hikes?

Manoj Bhat: Pankaj, that is what I try to cover in my opening comments. So I think there are two or three things here. So, from a demand recovery perspective, I think that is going to create its own beneficial impact on margins as we go forward, and already in this quarter, we have seen some of that happen. I think if I look at the other side of the equation, whether it is our journey towards more global delivery, including more offshore, because clearly some of the trends there are very encouraging and we have started the journey. The second thing is the synergy component with all our portfolio companies. And I talked about last quarter also that it is a synergy both from a revenue perspective, as well as from a back-end perspective, whether it is systems, whether it is people, whether it is functions, and processes being integrated, I think we should see some of that come through as we go forward. And lastly, I think from overall automation, and reduction of subcontractors, even now I think we have about 13% of our revenues coming from subcon. And this ties back into some of the things I spoke about in terms of the larger deals and how they start normalizing. Whatever took away the margins is going to contribute beneficiary as we go forward. And on the other side, you have the wage hikes, you potentially have some of the costs returning in terms of gradually travel costs, potentially some of the variable pay elements, etc., Considering all of this on balance side. I do believe it is sustainable and it will be our goal to actually see how we can improve it further.

Moderator: Thank you. The next question is from the line of Rishit Parikh from Nomura.

Rishit Parikh: Just wanted to understand a couple of them in terms of furloughs in the third quarter given I think most of our peers have indicated slightly higher than normal. And what are we seeing from a seasonality benefit that we get in retail? So that is the first. And second on the contact center BPO, in our call with ISG, they were sort of indicating that contact center BPO is likely to see weaker demand and given us a significant portion of our business in the BPO piece, wanted to get your views on what are you seeing demand in that space?

Manoj Bhat: So on the Retail and BPO, I will invite Ritesh to speak a quick word on furlough before I will hand it over to him. So from our perspective of course the real risk is that there could be an increase furlough there is no doubt about it. But as of now there is no such indication from any of our customers in any of our conversation. But as we are thinking about planning for the quarter, I think we are keeping that in mind that this could be a possibility and we will have to see how it goes but there is no such indication and we are today on 23rd October. But that something to keep in mind for sure. I know that is not a definitive answer, but it is definitely something we are closely monitoring. I think going back to retail ramp and how we see it play out as well as the contact center piece of it, I think I will invite Ritesh. Ritesh if you can take those two questions?

Ritesh Idnani: Sure. Thanks, Manoj. And Rishit, thanks for your question. As you have seen from the numbers, the quarter that went by was extremely strong from the BPO standpoint where we grew at upwards of 30% quarter-on-quarter. And some of it was reflective of how Q1 was where we were impacted both on the supply and demand side. As you rightly said, a significant part of our business is on the customer experience side, the front office transformation piece itself. What I am particularly encouraged with is the fact that our core value proposition has continued to remain intact. If anything, it has only gotten reinforced through the pandemic.

What we have seen is a greater acceleration in organizations transforming themselves digitally, where customer experience is front and center of boardroom priority, and COVID-19, if anything else, has been the single biggest catalyst for digital transformation. And what we have seen done particularly in the last two quarters, is more than what most clients would do over three to four years. So our core value proposition of cannibalizing our business through extreme automation, AI and analytics, and delivering to superior business outcomes, continues to get reinforced. And if anything, else, that has only gotten validated. What I am also encouraged with is the fact that we have been able to differentiate our core offerings in the marketplace out there to take share away from competition.

To the other question which was related to the retail side, what we have seen particularly in the last quarter that went by as well as in the current quarter, we have seen a significant demand from some of our client base on the retail side as they have been able to successfully compete in the marketplace. And I do see the fact that there is going to be a demarcation between what I call as good retail and bad retail. The folks who have successfully managed to transition to an online channel from a competitiveness standpoint, are obviously standing tall and pretty. And we are fortunate to partner with several of them. So as they grow, we benefit from the growth that they have. So that seasonality benefits us as they continue to get ready for the holiday season. And as more and more consumers, like you and me, look to shop online, we hope that we can benefit from that trend as well. Thanks.

Participant: Okay. And Manoj, just one small follow-up, right. You mentioned increase in variable pay, right, so there is no broad level of wage hike that we are planning to give out this year. Is that is that the correct understanding?

Manoj Bhat: Are you saying about this year, as in calendar year?

Participant: Yes.

Manoj Bhat: This calendar, we are not planning anything. I think whatever decisions will be in the next calendar year, and that's something we have to take.

Moderator: Thank you. Next question is from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: Manoj, I had two questions for you. Number one, first, have you booked any other income from the sale of Altiostar this quarter?

Manoj Bhat: So Altiostar, we have booked it, but you will see it in OCI, so not in the levels about. So we had chosen an accounting treatment at that point, which was showing in kind of the equity block. And so this game, if you see the OCI, you will see that increase of about, give or take, 30 million as a gain.

Abhishek Bhandari: Okay, got it. Second question is on headcount. So, if I look at the software professional's headcount and the same thing for support staff, they seem to have come down sequentially. Aand most of the addition has happened on BPO. And we are also touching kind of 85% utilization level. So if you could help us, how these numbers are going to move forward? And what would be your hiring plans for Q3 and Q4?

Manoj Bhat: No, from our perspective, and we never give our hiring plan, so I don't think we are starting that. So from our perspective, the way to look at it is, I think as we have gone through this journey, there is going to be an optimization which is led by attrition, backfill being controlled. And so that's something which has happened. I don't believe utilization will go much above this, so it will probably stay at this level. So from that perspective, that lever is something which I don't believe will play out too much. I think the second thing is , I think we are looking structurally in terms of models where we are trying to hire people again. And so yo u will probably see a headcount increase going into the next two quarters, but I don't have definitive numbers for you. We are also instituting a plan to figure out a program with some of the campus recruits, etc., going into probably Q4 or Q1. So I think all of those activities are happening on the manpower side . But this has been an environment where we are looking at every requirement and every opportunity to see how do we restructure our delivery organization and make sure that we are delivering at an optimum level with the right number of resources. And that will change as we see more growth come in the future quarters.

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

Sandeep Shah: Just wanted to understand, if I look at the growth profile in this quarter, a significant portion of the growth has been driven through BPO services with non-BPO, which is perceived to be IT services, the growth is less than 1% in CC terms. So it's been perceived that are we not participating enough in terms of digital lead services, especially outside the BPO? And why we are not able to drive that growth when the whole vendor profile has been indicating that the growth has been increasing on cloud adoption, data, digital analytics kind of services, why we are not able to show that in our growth journey?

Manoj Bhat: So Sandeep, that's a good question. So if I really look at it, and I think in the first question itself somebody said that some of our verticals are not doing as well. But if I really want to talk about three areas, and then I will request maybe Manish and Jagdish to chip in. I think one is, of course, the network services revival is slower than we thought. So that's something which, I think, as and when the whole equation around 5G, etc., starts opening up and things will start going back to normal. The second is Europe, as a geography if you see, has been slower in terms of the bounce back, while U.S. us and ROW. So I think even that I think is a quarter or two lag is what I feel, and that should come back. And the third piece is from a vertical perspective, I would probably talk about manufacturing. I think these are three specific areas. But I will request Manish to speak for a few minutes, and then maybe Jagdish, if you can add to that.

Manish Vyas: Sure, Manoj. Thank you. Sandeep, thank you for the question. Let me first allay your fears that whether we are participating in the digital or overall transformation. I want to assure you that, that is not the case. We are very busy, like I said in my opening answer to Sandeep Agarwal's question, that we are busy with a lot of digital transformation work around a broad range of topic. What you would consider, and we would historically call as IT, or networks, or overall digital. So that's point one. Point two is, telcos have typically been slow as far as their recoveries are concerned and in terms of, I think, the new digital programs are concerned. Some of the work that happened in this quarter, including the launch of the new iconic, as most companies call it, the new phone, has actually been built into the projects and the allocation that happened over the last six to nine months. So that's why you would see revenue upside. But all of that work that we enabled with almost the top 20 service providers was built around digital transformation. That's point two. Point three is, I think you will continue to see, as the calendar year winds down some of these decisions happening. The revenue dovetail of that may happen a little later, but at least you will start seeing some decisions happening because people will take those calls as they get prepared for the next year. So I think it is very similar to the first question I answered, as far as telecom and comms is concerned. We continue to participate and stay very busy with the transformation and digital. As far as converting that into the upsides, I think sometimes it's always a function of time and there is always a lag here and there. But to Manoj's point, we had a lot of muted activity in Europe for a period of time, we are starting to see a lot of intense work going on in that geography as well right now.

Jagdish Mitra: Thanks, Manish. This is Jagdish. Sandeep, to give you a little more colour from the additional parts that may be Manoj and Manish covered, so I am not going to repeat it, it holds true for the rest of the business. But just on the comment on digital, just on data. I know we have stopped reporting, or rather, commenting on what our digital growth has been. But just on a quarter-on-quarter basis, our digital growth will be upwards of 10% to 15% in terms of the digital technology with the growth that we have shown this quarter.

The question is, why is it not resulting in an IT services, larger growth at large? And that's driven by two or three things, apart from what Manoj and Manish talked about. One is the couple of verticals that need to pick up for us, and they are already, from an industry perspective, are showing good trend, where we talked about both manufacturing and retail, actually, even utility from that perspective is showing good signs of growth for us. So this quarter, I don't think really the structural mix of our business is what played out. And I think going ahead this will start to play out pretty much in line with what the industry trends are. So you should expect a better performance from IT as you go through the next few quarters.

Sandeep Shah: Okay. Just a follow-up to Manish. I think in his initial reply to a question, he said in next three to nine months there will be clashing of network and core digital transformation led deals. So these are large sized deals or these are the smaller sized deals? And Manoj, can clarify to the earlier question, why there is a significant decline in sales and support staff in this quarter?

Manish Vyas: I think, Sandeep, very quickly, it's a broad range, in the sense it is mid-sized as well as largeish size of deals at this point, depending on the kind of operators and service providers who are looking to participate in the transformation. It varies in terms of their respective size. But irrespective, what is important from a trend standpoint and to give you the assurance, and I am particularly focusing on your first question, that for every major operator that we serve today, we are busy with doing digital transformation or transformation discussions per say.

Sandeep Shah: Okay, thanks. And just on sales and support staff question.

Manoj Bhat: I think there is some reclass there, so I don't think you should read much into this. What we will do is we will try to represent it differently. I think that is just a reclass.

Moderator: Thank you. The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.

Girish Pai: I had a few questions on 5G. How much of your pipeline is 5G oriented? The second is, in terms of systems integration opportunity in 5G, suppose $100 is the investment going into 5G, how much of that would be systems integration driven? And the narrative around 5G, which has been thus far B2B, it is going to be like spread out over multiple years, has that narrative changed because of the pandemic? So these three questions.

Manoj Bhat: Manish, you want to take that up?

Manish Vyas: Absolutely, Girish. Great questions. So, let me go back to the overall 5G narrative that we have been given over the last several quarters, that 5G is not just about putting the new radio network, which clearly is one large CAPEX area that we will see. But 5G is an opportunity and most of the action that we are seeing, it kind of vindicates our position that 5G is a more holistic transformation at multiple levels, operations, process and systems and, of course, networks. So, a large part of our funnel today, I may not be able to point you to a specific percentage offline, but will request, maybe Kaustubh, to look into it if that's something can be shared. But a very large part of our funnel. When I use the word transformation these days, you can pretty much interchangeably use 5G or digital transformation in the same breath. That's indeed around either 5G or 5G enablement, right. For example, if somebody wants to deploy a new billing system, it is indeed keeping in mind whether that system is going to be able to serve the 5G use cases.

And to your second question there about whether it is still largely a B2B, or it has evolved with COVID? I think it's both, it has still continued to stay largely B2B, primarily because, and like Jagdish pointed out, that's where we are seeing a lot more interest from our enterprise customers around 5G discussion right now. In one of our recent advisory meetings with the customers, unanimously, everybody voted for saying we would like to be busy in discussions with you all on 5G. But you are right that COVID has indeed presented some new challenges and opportunities. Challenges around the fact that there is lot more remote working, home office working for enterprises. People expect that to continue, not just for a short-term but maybe, in many cases, permanently. So, the current broadband solutions are serving the purposes quite alright. But clearly, there is going to be intense pressure, as the data traffic shifts more towards video and multiple screens and lot more industrial activity happens outside of these remote locations. So there are discussions happening, not just around use cases but around security infrastructure, around private networks, and few other things. But again, early days on all of these things. If you open up any newspaper or any magazine in the industry, almost everybody is talking about these things. The gap between the hype cycle versus the conversion of these opportunities, I think it's something which nobody can specifically accurately predict. However, needless to say that there is a shift happening. The sand is shifting around how the 5G will be deployed and will be utilized going forward.

But again, just to summarize, I think, 5G is indeed a very central theme in almost all our conversations in our funnel today. I would also add, including where we are discussing only costs, the prime driver for that is also how they want to deploy their remaining money on 5G. So either we are enabling or we are actually in the heart of that 5G conversation at this point. I hope that helps, Girish.

Girish Pai: One last question, what is the opportunity around this Rakuten communication platform? That's one. The other question I had, which I had asked earlier was, of $100 spent on 5G, how much would that be systems integration oriented? Thanks.

Manish Vyas: So again, I think, the system integration piece in 5G, again, I will have to go back to the same point that 5G, if you just look at network RAN, that's one piece. But if you look at the overall 5G, you know there are different cuts to a typical project, I would still say about 30% to 35% to 40%, depending on an average is going to be the system integration. It will only increase over a period of time as the open architectures become more mainstream. A lot of that conversation has begun.

That brings me to your second question about Rakuten. It indeed is an opportunity to spearhead with them and few other similar partners. The whole open architecture, cloud native, software based architecture in the network, plus domain, it is not just network, it is also everything that can be done for a service provider and for their customers, that is cloud native. So I think it's a significant move in the industry. Still early days, as far as Rakuten cloud platform is concerned. But our overall partnership with Rakuten, as CP alluded to in his opening remarks, and as we have publicly announced, I think we have cemented that relationship even more at multiple levels. So, I think it's a lead indicator of what the thought leaders in the industry are talking about in terms of how a future telco architecture will be built. And your company is not just happy, but also we believe we are privileged, as the leaders in this industry, that people come and talk to us across a broad range of partners, not just Rakuten.

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

Divya Nagarajan: Thanks for the good execution this quarter. Two questions here, first to Manoj. You had earlier talked about overtime getting back to the 15% kind of EBIT target by the end of the year. Given that we are pretty close to this, and there are definitely some additional cost savings that have come in because of the current environment. Should we be looking at any upside risk to that 15% number? That's my first question.

Manoj Bhat: So, Divya, I think, clearly, the current quarter, of course, has created a front-ending effect of some of the things we thought will take two or three quarters. Having said that, I think for now, I would like to maintain this 15% and potentially with an upward bias. But I think that's something we will have to wait as, and which I had said in the past also, by Q4 we want to give you a clear visibility into next year. But considering our performance this quarter, I would think that there should be an upward bias there. But I will wait till Q4 before I am more definitive about that.

Divya Nagarajan: Thanks. And I am not sure if CP's on the call, so this is more of a medium-term revenue outlook question. What according to gets Tech Mahindra to a more comfortable double-digit kind of a growth rate? Would it come from the kind of large deals that we saw last year, those $1billion, almost $1 billion dollar kind of contracts? Or can existing business itself kind of start to perform at a much faster run rate? What should we look at as lead indicators for accelerated revenue growth for you?

Manoj Bhat: So if I really look at it, two or three components there, Divya. So the first one is, if I look at our enterprise business, I think even in the past we have been at the industry leading levels in terms of growth. And that is something which I don't see a reason why we should not reach that level. To add on top of that, some of the breakthrough large deals we won last year, even in the enterprise side, I think that will cause a growth acceleration. I think on the telecom side, I think, clearly, in addition to whatever we are doing in terms of helping telcos transform, potentially on the IT side and combining some of the digital technologies, I also see that whole 5G as an additional lever. So if I assume that is a two to three year cycle which continues, and this is an overlay with a broader thing which we are seeing across customers in terms of our drive to be more digital. And that's where I do see that accelerated growth come from. Now, of course, for all of this we have to execute in each of these buckets very, very well. But if I step back and look at the funnel, again, it is almost at an all-time high, there is a lot of deals in the pipeline. And we need to pick each one of them, analysesand win those deals that execute. But that's the way I would see the accelerated growth come through.

Divya Nagarajan: Got it. And just as a follow-up to that. What is your confidence level on 5G growth picking up next year? I think we have had these expectations be there for some time now. But has anything given you increased confidence that we are much closer to this than we have been in the past? And if yes, what would that be?

Manoj Bhat: So, I will let my Manish answer it. But I mean, we have always said that this will be F 2022 phenomena. But clearly, two or three months have passed since we said that. So, Manish, you have a perspective on timing? I know it's a kind of a difficult crystal ball gazing kind of a question.

Manish Vyas: Yes. I think, Divya, timing is the timing is always the difficult part. However, I will just try and provide more color to where are we sensing the opportunities coming from and what is it that is driving this. And to Manoj's point, it could be sometime next year, next financial year, the one after. What is happening clearly is that COVID has demonstrated not only some fault lines in the business, because it is an ironic fact that while the consumption of data is at an all-time high on major part of the network, and yet the revenues and the margins have continued to remain reasonably muted for the service providers. And that's not new, it is ironic because it continues even in this time of crisis. When the initial commentary, if you recall, the first couple of weeks of the pandemic was that maybe the telco industry will benefit a lot more. But we knew that the B2B impact is going to be significant. So that has been one, I would say, negative impact on the speed at which they would be investing in the 5G cycle. But I think Sandeep or Girish asked this question earlier, which was important, what will be the impact on B2C, and that I think is where we will start seeing at least an expansion of projects to serve the consumers. A lot of the work that Ritesh was alluding to earlier, also is an indication that some of the new discussions that we have begun is actually not on the network, not on the IT side, but by leveraging new technologies like AIML into our customer experience segment, because many a pundits have said that the transformation of customer experience is directly proportional to the 5G revenue growth for service providers, because it's about recasting the relationship between a service provider and their consumers/customers. So because the conversation has now started happening at multiple levels, not just at the network deployment level, that gives us the confidence that we are in the right place right time, at this point. How it manifests itself into deals and wins and revenue remains to be seen, but we remain cautiously optimistic.

Moderator: Thank you. We will take the next question as the last question from the line of Jiten Doshi from Enam AMC. Please go ahead.

Jiten Doshi: CP, Manoj, Jagdish, Manish, congratulations on a very good show. I think for the first time we are getting to see a very strong momentum and the company. So, the only thing I would request is, Manoj, I have made this mentioned sometime back to you also that I hope you all don't go and do one large acquisition and put yourselves at the back. But I think the momentum seems to be very, very positive. And I think company seems to be in the right direction. We always had more faith in you than you had in yourself. But I think this is just to say that we are on the right track, and I just hope the momentum is maintained. Because I think that's what gives all of us the joy. So, we hope that next couple of quarters just go this way, and we see you back on growth. But ideally, my question always remains that what is the margin that you believe is possible in terms of the EBIT margin? Do you think we can go back to 18%, 20%?

Manoj Bhat: So Jiten, thank you for your comments. And, as usual, they are well appreciated and understood. So from my perspective, and I am not going to put out a margin number. And what I said is, I think it is an increment of two quarters at a time, four quarters at a time, and we build from there. And that's what we are saying that by Q4 we will look at F 2022 and look at whether we can exceed that 15%. But for now, I think put all hands to the deck on achieving our next two quarter goals, and then the next two quarter goals, that's how we are approaching it. Unfortunately, CP had to sign off, but I am sure he would have also appreciated your comment. So thank you so much for that, Jiten.

Jiten Doshi: So, just one more thing that, in your longer-term vision what do you think is the sustainable growth? I mean, are we looking at a double-digit growth to sustain over the next three to four years?

Manoj Bhat: In my mind, if 5G comes and when 5G comes in, we think it will be next year, I think we will see both sidesof the equation growing potentially close to that double-digit number, given what we are seeing in the marketplace today. So that's where I would think it would be. But that's the vision we have of trying to build to that kind of a company. And that's something which, I think, we are not taking it as a six quarter thing, we are taking it two quarters at a time, as I said, again, that we are all defining what is this quarter's goal, what is next quarter's goal, and then going about it step-by-step.

Jiten Doshi: But the longer-term goal that you are still looking at is a sustainable double-digit growth over the next couple of years, right?

Manoj Bhat: I mean, that would be the goal, yes, overall. But I as I said, I think many things have to fall in place and we have to make them fall in place, that's what we are working towards.

Jiten Doshi: Fantastic. Wonderful. Just wondering what took you so long, because the team is fantastic, everything is right. The momentum has just started, and we wish you all the very best. Just stay the course very, very focused. I am sure you will surprise everybody. So all the very best to you. Thank you so much for a wonderful quarter.

Moderator: Thank you. Ladies and gentlemen, that will be the last question for today. I now hand the conference over to Mr. Manoj Bhat for closing comments. Thank you. And over to you, sir.

Manoj Bhat: Thank you, everyone, for joining in. I know maybe some people are still in the queue, but we are happy to answer questions offline. And thank you so much for joining and appreciate your feedback and comments. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Tech Mahindra Limited, that concludes today's call. Thank you all for joining us. And you

Note: The above transcript has been edited for better readability

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