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29th January, 2024

To,
BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street,
Mumbai - 400 001
Scrip Code : 532755

National Stock Exchange of India Limited
Exchange Plaza, 5th floor,
Plot No. - C/1, G Block,
Bandra-Kurla Complex, Bandra (E)
Mumbai - 400 051
NSE Symbol : TECHM

Subject: Transcript of earnings conference call for the quarter ended 31st December, 2023

Dear Sir/Madam,

In terms of Regulation 30 and 46 read with clause 15 of Para A of Part A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter ended 31st December, 2023 conducted after the meeting of the Board of Directors held on 24th January,2024 for your information and records.

The above information is also available on the website of the Company at
https://www.techmahindra.com/en-in/investors/disclosure-events/

Thanking you,

For Tech Mahindra Limited

Anil Mohanlal Khatri
Digitally signed by Anil Mohanlal Khatri
Date: 2024.01.29 17:49:52 +05'30'

Anil Khatri
Company Secretary

Encl.: as above

"Tech Mahindra Limited Q3 FY24 Earnings Conference Call"

January 24, 2024

MANAGEMENT: MR. MOHIT JOSHI – MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER, TECH MAHINDRA LIMITED
MR. ROHIT ANAND – CFO, TECH MAHINDRA LIMITED
MR. ATUL SONEJA – CHIEF OPERATING OFFICER, TECH MAHINDRA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Tech Mahindra Limited Q3 FY'24 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mohit Joshi – M.D. and CEO of Tech Mahindra. Thank you and over to you, sir.

Mohit Joshi: Thank you, operator. Good evening to all of you who have joined the call today and I wish you a Very Happy and Prosperous 2024.

It has now been seven months for me in Tech Mahindra and slightly over a month as the CEO. And I'm very grateful and privileged to speak to you today as the leader of this wonderful organization that is respected by clients globally for the quality and the caliber of our services.

We have embarked on our turnaround phase in TechM's evolution, and we are actively making foundational moves to upgrade TechM's performance. Our overarching goal in this phase is to make the investments and changes to maximize a long-term earnings growth to drive a culture of performance in both delivery and sales. We are in the process of defining our long-term strategy, which will then be effectively implemented to deliver long-term value for our customers, employees and shareholders.

We are embarking on three tracks as I'd shared with you previously to unlock the value from our operations:

The first track is focused on "Revenue" and is focused on "Sales Improvement":

The erstwhile organization structure at Tech Mahindra comprised of 12 sales SBUs, which we have now simplified to just six units. We have also eliminated the dotted lines and delayered the hierarchy for better synergy and accountability. The portfolio companies will also be integrated under the respective business units for better realization of synergies. Further, as we scanned through the portfolio, we saw a need to reconsider how we allocate our time and investments across our client portfolio.

There was low investment focus on our top accounts, which resulted in us not being able to realize substantially the true value of these top clients. At the same time, we've also worked to find ways to substantially improve and better utilize our efforts in engaging across the smaller accounts. So, we are bringing more attention and investment to the top accounts, and we are revamping our efforts to engage with the smaller accounts. These actions are likely to improve the effectiveness and efficiency of our sales efforts.

The second track is focused on “Margin Improvement”:

Since the delivery teams historically were aligned to the regions and spread across many units, there was no central ownership. This led to a lack of scalable, innovative and industry-focused solutions. Centralized delivery structure will result in innovation and domain expertise, and it will also help us implement focused programs towards cost reduction and margin expansion. In my seven months, I have found that Tech Mahindra's delivery talent is very strong, and the staff has an intense desire to serve our clients and the levels of client satisfaction are high. By combining this strong talent with significantly improved delivery structure and processes, I believe that Tech Mahindra will further enhance its client service while also increasing our innovation, profitability, and scalability.

The third track is focused on the “Organization”:

We are focused on building the organization for the future. TechM has historically thrived under entrepreneurial growth, and this eventually fostered an informal culture. While the intention was to imbibe agility, over time, lack of frameworks made it difficult to implement changes, and the organization has become slow to act. The organization structure ran the risk of becoming hierarchical and siloed. We believe that a company of this size needs robust processes and frameworks, and there can be room for freedom and creativity within the set framework. We have made changes to internal policies on these lines and there will be more work in these areas in the coming months. For an organization as big and diverse as TechM, it is important to progress from an entrepreneurial model into an organization with a unifying vision and supporting frameworks.

We also recently concluded our cultural assessment using an independent assessment firm, and the final report identified an encouraging set of cultural strengths. These include a focus on customer-centricity and a sense of belonging and deep pride in the company, and the Mahindra group's heritage. The study also, as you would expect, highlighted areas where our organization practice needs to improve. The key opportunities here include elevating the roles of our delivery organization and I believe that we are making progress here by centralizing the delivery organization. The report also identified the need to improve the consistency of our associate rewards and the associate feedback process. Based on these inputs, which was based on an extensive focus group discussion and leadership interviews, we have worked towards establishing a culture of performance, professionalism, learning and merit. We have already started making changes to our incentive schemes and HR policies to reduce bureaucracy and to empower the workforce.

By diligently working on these three priority areas, I'm confident that we have what it takes to pull off this plan, our strengths line, our talent pool, our client base, and a very strong heritage from the group.

We are the market leaders in the telecom business and have billion-dollar verticals in Manufacturing and BFSI. We have a fast-growing practice in BPO and distinctive capabilities and IP in AI. We certainly have the foundation, the merit, the talent, the values and the ability to achieve our goals, and I don't see any hurdles that stop us from becoming the best technology services company in the sector.

Building on these trends, along with focused efforts on the areas of improvement, we're embarking on our turnaround effort that will take TechM to the next stage. The primary objective of this turnaround effort is to maximize TechM's long-term revenue growth and long-term margin. Doing so will require substantial changes, turnaround costs and above normal investments over the next year. To underscore this, especially given the multi-year opportunities we see, we will use this turnaround period as an opportunity to invest significantly to improve our positioning in a set of target markets.

I had spoken previously about the leaders that we onboarded, and the previous quarter was in all senses a quarter of new beginnings. Richard Lobo has joined us as the new Chief Human Resources Officer. Rajshree has joined us as the Chief Growth Officer for the Americas strategic verticals. Peeyush Dubey has joined us as the Chief Marketing Officer. We have already announced the joining of Atul Soneja – our new Chief Operating Officer. Roshan Shetty and Pankaj Kulkarni as BFSI heads in the US and

Europe respectively. We have also strengthened the leadership to scale the BFSI vertical in Asia Pacific and the ANZ region, and I take this opportunity to welcome them to Tech Mahindra. They are significant additions to the team and I'm sure they will bring great value through their rich experience and domain expertise. We already have a great team in place in Tech Mahindra and with these new additions to the TechM family, we should be able to take this organization to new heights from an already strong foundation.

Moving on to Q3 Results:

We reported revenue of US$1,573 million for the quarter ended December 2023, which is a growth of 1.1% for the sequential quarter and a decline of 5.7% on a YoY basis.

Diving further into segments, the growth in the quarter was mainly driven by the Manufacturing sector where we continue to leverage our strengths in automobile and related ER&D services. We also see an uptick in the retail segment during the festive season and they've played out this year as well. Outside this, most of the other segments like Telecom, BFSI and Hi-Tech were impacted by furloughs.

We report EBIT margins for the quarter at 5.4%, which is an expansion of 70 basis points. These numbers are the outcome of the actions that we have taken to derisk the portfolio. Adjusted for exceptional items, the operating margin stands at 7%. We report new large deal win TCV at $381 million for the quarter. This comprises of deal wins across our key segments.

We were selected as the strategic IT transformation partner by a prominent life and annuities provider in North America. This is a large multi-pillar comprehensive transformation engagement that includes the modernization of the core through cloud migration, application, and infrastructure services provisioning.

Tech Mahindra was also selected as a strategic partner by US-based telecoms OEM for building and operating their next-gen state-of-the-art lab in Plano, TX.

We were chosen as a Partner of Choice by an American package and supply chain company. The portfolio transformation deal includes scope of work across application development and maintenance, enterprise applications, cloud, next-gen data analytics, AI/ML as well as digital design.

TechM has also been selected as a prime services partner by US-based telecom operator. Tech Mahindra will provide transformative design, development, management, and support services for the ILEC stack.

We have been selected by a large Asian bank for a comprehensive digital banking CX deployment, servicing their customers in the region.

We had spoken previously about the progress that we've made on the AI front and we have seen significant progress on the GenAI initiatives.

We launched the Vision amplifAIer, a solution which infuses GenAI in computer vision and provides end-to-end workbench to substantiate computer vision use cases. Earlier, we had announced an Email amplifAIer and an Ops amplifAIer. So, this is our third offering in the amplifAIer suite.

We currently have active client conversations related to GenAI and we see early-stage experiments and POCs now starting to move into production pilots. Many of these engagements are in the areas of Conversational AI and Document AI. GenAI not only is an integral feature of large transformation deals, but we have also seen standalone GenAI deals in the areas of enterprise knowledge search, customer engagement and business processes.

In terms of segments:

Healthcare and Life Sciences clearly stand out as earlier adopters of GenAI with specific interest in areas like drug discovery, EMR, and medico audio scripts.

While we are helping hyperscalers and SaaS providers to scale their AI offerings, we also see emergence of complex use cases of GenAI applications in areas like chip design. To maintain our lead in this space, we will continue to train our associates with GenAI-led skills and intend to enable this for 100% of our talent base. Currently, we have trained 16,000 associates in Pair Programming, broader AI coverage is much larger, and this coverage will increase as we move forward.

From an awards and recognitions perspective, I'm happy to announce that Tech Mahindra is the only Indian IT company to make it to the Dow Jones Sustainability Indices, World Index 2023 as part of the DJSI World Index for the 9th Consecutive Year. This is a moment of great pride for us and shows our focus on sustainability.

We have also been recognized among the Progressive Places to Work 2023 by ET Edge.

I will now hand it over to Atul Soneja, our Chief Operating Officer to share an update on the delivery side.

Atul Soneja: Thank you, Mohit. Hi, good evening, everyone and wish you all a very happy 2024.

Over the past six months at Tech Mahindra, I have had the privilege of leading a team known for its impressive delivery capabilities, client-centric approach, and an immense sense of belonging to the Mahindra and Tech Mahindra brand. Additionally, I am heartened by the cohesive bond forged among the leadership team contributing to a strong and unified organizational culture.

As Mohit highlighted earlier, we reorganized and centralized our delivery organization about a quarter back. We now have a 6x6 matrix wherein there are six verticalized application development, maintenance and support teams which specialize in each of our key client verticals like communications, manufacturing, BFSI, hi-tech, media and entertainment, healthcare and life sciences and diversified industry groups, which covers verticals like retail, oil and gas, logistics, etc., These are aligned with the changes in the sales organization, which is now more verticalized.

In addition, we have established six distinct service lines, namely – Cloud and Infrastructure, Enterprise Applications, Design Experience, Next-Generation Services encompassing Data Analytics, AI and GenAI, Cybersecurity and other emerging technology as well as network services and engineering services. The implementation of these modifications took effect earlier this month, with the entire workforce of over 70,000 IT professionals seamlessly transitioning to operate within the framework of the new organizational structure.

This framework enables us to attain three pivotal goals:

- First and foremost, it facilitates the development of deep competencies, allowing us to harness these capabilities in delivering industry-specific solutions and offerings to our clients.
- Second, it instills agility within our operations, enabling us to innovate on a larger scale.
- And third, it empowers us to drive efficiency and productivity enhancements by leveraging the benefits of scale. With this change, our customers benefit by experiencing the best of Tech Mahindra across all competencies and gives our own associates an ability to build deep domain and technology competencies.

We are seeing an increasing number of use cases of AI and GenAI adoption with our clients. These cases are moving from the plain vanilla document summarizing, chatbot, etc., to using GenAI for business transformation like using GenAI to optimize cell tower energy consumption, AI for art repair and restoration, which allows GenAI to fill in art wherever it is damaged or changing a massive product catalog and launch a new store within a matter of days to respond to a market even for a large retailer.

Our investments and thought leadership in AI and GenAI have been well recognized in the industry, with Tech Mahindra being identified as a leader across multiple analyst ratings. We plan to train 100% of our IT talent in AI in FY'25.

We have also initiated focused programs to increase efficiency of our operations like pyramid optimization, utilization improvement, subcon reduction and value-based pricing. These programs are meant to weed out inefficiencies in our operations, ensure customer delight by way of delivery excellence and help us improving the operating margins.

We have hired over 2,000 freshers up to December, have optimized our subcon dependency, improved our fixed price offshoring, and we plan to continue these and additional operating levers to drive our margin forward.

I would like to hand it over to Rohit to take you through the financials for Q3.

Rohit Anand: Thank you, Atul. good evening, everyone.

Let me now cover the Company Financials for the Quarter ending December 2023:

We ended our 3rd Quarter with revenue of US$1,573 million, which was up sequentially 1.1% QoQ, down 5.4% YoY. While the enterprise segment grew 2% on a QoQ basis, the communications segment marginally declined by 0.3%.

In terms of INR revenue:

Our revenue was up QoQ by 1.8%. The revenue in Q3 is on the back of certain one-time revenues, which contributed 1.4% sequential growth. We got some positive lift from seasonality business in Comviva and the retail segment, which was off-setted by the furlough impact that we see typically in this time of the year.

In terms of our EBIT margins:

Our margins was 84 million for the quarter versus 73 million in Q2. The margin percent was 5.4%, which is an expansion of 70 basis points QoQ. This is after exceptional items of 160 basis points which we took in this quarter in line with what we discussed last time looking at our portfolio, rationalizing certain areas that we don't think fit from a long-term strategy perspective. Adjusting for those, our EBIT margins for Q3 stood at 7%, similar to the normalized margins last quarter.

Moving below EBIT:

Our other income for the quarter stood at 11 million, which was down compared to last quarter. FOREX losses were $ 5 million based on the FX currency movements versus marginal $ 0.3 million in Q2. The effective tax rate for the quarter was 22.8% and resultant of that the PAT was 61 million at a profit margin of 3.9%. We had a healthy quarter in terms of cash, our free cash flow was $ 228 million.

Our DSO days improved by 6 days to 91 days, and we expect the cash conversion in Q4 to normalize a bit because we got certain advanced collections in the quarter. When you look at the hedge book as a part of our accounting hedge policy, we have a hedge book of $ 2.3 billion. And as per the mark-to-market for the quarter, we had a gain of $ 4.7 million, out of which $ 2.8 was taken to the P&L and $ 1.9 to the reserves. When we look at our cash from a balance sheet perspective, our reserves, cash and cash equivalent is at $ 843 million which is Rs. 7,012 crores which is healthy from a balance sheet position perspective. When you look at the year till now, we've had operationally a tough top line based on the macro environment, but outside of that, we've taken a set of actions which are exceptional both on top line and on bottom line. While it gives an impact on the P&L in the short term, we are very sure that from a long-term perspective it sets the business in the right course, and this will deliver value in the long term as we make the right portfolio choices.

So, with that I stop the opening dialogues from all of us and open it up for questions for the participants.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Ravi Menon from Macquarie. Please go ahead.

Ravi Menon: Rohit, you talked about 160 basis points impact. There is no impairment that we've called out. So, could you explain what exactly is this 160 basis points impact and is that entirely in the SG&A line?

Rohit Anand: So, one-time exception-led similar to last quarter as we had called out, there are certain portfolios across the organization that we're looking at, there are certain contracts that we look at from a long-term perspective, it doesn't align with the strategic vision we have. So, we've upfront taken actions on those, either terminating those or boxing them separately. Based on that, we've taken certain impacts which was there last quarter and the same follow through. So, we said that between Q2 and Q3, we'll pretty much close those actions and that's what we've done. From an impairment perspective, that's a year-end exercise where we look at all our portfolio investments that we've done historically, and that assessment will happen in the current quarter as a part of our year-end financial close and basis that we'll keep you updated if there's any charges associated with it.

Ravi Menon: Is there any revenue impact as well, Rohit, due to this closure of contracts?

Rohit Anand: No, not significant this quarter. We had it in last quarter, which we've articulated. I think this quarter the one-time revenue is more around certain product revenues which won't be repeated, so that's what I highlighted from a top line perspective.

Ravi Menon: In telecom specifically, how should we think about this -- are we looking at sequential growth from here, do you think this is bottomed out or are there still headwinds ahead?

Mohit Joshi: Ravi, we don't see telecom as having bottomed out. We still see a significant amount of volatility at least for the next couple of quarters. But we do feel that the worst is behind us, right. If you look at the very significant drop that we had in 2023, we don't think we're looking at the same magnitude of drop in 2024. But it is still a sector that is stressed, and it is still an area where we are seeing volatility in the current quarter and beyond.

Ravi Menon: And one question is on Europe. Really strong performance there. Do you have some color on what sort of deals you're winning there; what verticals are being tracked?

Mohit Joshi: Look, I would say that in Europe, our performance in this quarter really is a bounce back from the very poor performance we had in the previous quarter. I would still say that from a year-on-year basis, we are still down in Europe. So, I would not prematurely call it a victory or a recovery. There is a lot of work that we are doing in Europe to systematically look at our clients base, to look at the various segments in which we operate. As you know, in Europe, we have a strong telecom business, but also a significant right-to-win in Manufacturing, we are investing to build up a BFSI business. So, in the long run, I'm sure that our Europe business will be very robust. But the performance in this quarter is just a bounce back from an exceptionally poor Q2 and not really a sign of great recovery.

Rohit Anand: Just to add, some of that one-time revenue is also in Europe. So that is causing a little bit of an increase.

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

Gaurav Rateria: My first question is for Mohit. You made a comment around that you embarking on this three track plan and making significant investments and changes. How to think about the duration of these investment cycle -- is it going to be multi-year investment cycle, and when do you think that we'll start reaping the fruits of that?

Mohit Joshi: So look, I think as you know I have been in this position only for about 33, 34 days now. So, we are at the very early stages of detailing our plan for revenue, plan for margins and a plan for the organization. But, if you look at the things that we're talking about from an organizational perspective, right, we're talking about taking in fresher talent every year which means that we have to build out a training infrastructure from what we have. We've got a new CMO, so we're making significant investments from a brand perspective. There is some rationalization of policies that I had alluded to that we have done, plus we're building out capabilities in sectors like BFSI. So, all of this will require investments. I expect that when we come back to you in April and we are looking at extended earnings call in April where we will be able to give you a first sort of flush of how long we reckon this turnaround period will take and what we expect to deliver in the coming quarters, in the coming years. So, please do give us a little bit more time to come back to you with the timelines.

Gaurav Rateria: Second question is around different companies have highlighted different pockets of green shoots they are seeing in the part. So it'll be great if you could flush out the detailing in terms of where you are seeing some green shoots from a demand perspective, which other segments that you think will be the ones that will bounce back fast?

Mohit Joshi: So look, like I mentioned, we are still seeing near term volatility in our revenues for this quarter and for the next quarter. I feel that the market environment though is slightly more positive than it was six months ago, but it's too early to call it green shoots or to point to any sustained recovery in any part of the business. We still see significant volatility and so it's too early I think to call for a definitive signs of green shoots or definitive signs of a recovery. In sectors like telecom, like I said, I feel that the worst is behind us, but that is very different from saying that we are seeing green shoots, or we are seeing growth.

Gaurav Rateria: Rohit, how to think about margins -- have we bottomed out in our margin profile and from here on we should see sustained improvement even after taking into account the investment plans that we have, if you could just give us some puts and takes on that, that'll be helpful?

Rohit Anand: I think the way to think about it is a normalized number, right now, 7% EBIT, and from here on, I think Q4, as I mentioned, we will go through our annual impairment exercise, which we do for all portfolio companies, leaving that, from an operational perspective, we should start looking to see that this as a bottom, and when we make our plan in April, I think as Mohit said, we will share more details of how we see this trajectory to go more around the next year and more importantly the long-term, and the long term will be very, very critical for us because the investments we make now will start giving us return for a longer duration. So, we'll share both next year as well as the long-term plan with you as we come back to you in April, but from a bottoming perspective, yes, operationally, this is the bottom except some of the portfolio company reviews that we'll do from an impairment perspective.

Moderator: The next question is from the line of Kawaljeet Saluja from Kotak Securities. Please go ahead.

Kawaljeet Saluja: Mohit, I have three questions for you. The first question, Mohit, is that margin is a function of two things -- one is the price and second is the execution. Now, let's basically assume that you can execute as well as you visualize here in your new structure and the improvements that you have made. The balancing factor remains about price. Now, when you look at Tech Mahindra's pricing, how does that compare versus the industry? And is pricing of contracts going to be a handicap for you in your profitability journey?

Mohit Joshi: I think this is a very valid question. The way we're also thinking about margin expansion is across multiple parameters. So, the way we think about it is there are five levers that we need to pull from a margin expansion perspective. The first, as you rightly said, is operational parameters. And these operational parameters have been defined previously, they're pyramid, they're the onsite-offshore mix, subcons, utilizations, things like overhead. Beyond this, we need to move into what are the factors that we use to drive productivity, and which is around lean, it's around automation, it's around the use of GenAI, it's also about being able to drive reuse across the range. Beyond this, we need to look at how we change the nature of contracts itself, can we be moving into more outcome-based engagements, can we be moving into more team and squad-based structure, so really changing the way we price for teams rather than pricing for individuals. We're obviously looking at margin-dilutive contracts as you know, historically, in TechM. We are looking to build out a discipline around pricing and around contracting, that should give us the benefit. And then there is a point that you mentioned, which is around the price realization itself. Here, I believe that we have to have a focus on high margin services. It's in engineering, it's in enterprise apps, it's in cloud, our services around data and AI, which as we change our mix, we feel that it will help us improve our margins. There's also the additional things that we're doing around in our geographies. As you look at it now, the delta with the best-in-class peers is very significant from a margin perspective. So, I do feel that we have room to move across these five parameters that I mentioned, but obviously reaching best-in-class margins is something that will take time. I do feel that we can narrow the gap in the shorter-term.

Kawaljeet Saluja: Mohit, do you want to break down that gap between the difference in pricing versus peers versus the execution or that's something -

Mohit Joshi: I would say that the gap is largely in execution and not so much in pricing or the mix.

Kawaljeet Saluja: The second question I had is about the portfolio of a contract and business that you have. Now, there was a fair bit of rationalization and clean up exercise undertaken in the last six to nine months. Are you happy with the current portfolio or is there further surgery required?

Mohit Joshi: I think it's too early to tell. There is some tweaking that will be required in parts of the portfolio and there will be some strategic decisions that we will need to make. And again, this is something that we'll be sharing in April. But there is nothing dramatic or earth shaking that we're looking to do, it will be more in the nature of streamlining.

Kawaljeet Saluja: The third question, Mohit, is on the telecom portfolio. Now, Telecom portfolio is good in a technology shift cycle but not so good in a sustained kind of a cycle. What's your perspective on which kind of a cycle are we in telecom? And second is that generally it's assumed that telecom is not a great portfolio to have, it's a handicapped portfolio which will keep on underperforming, given the fact that spends do not go up. So, do you agree with that assessment? And if yes, then, is there something in the telecom portfolio of existing clients that can be done to stimulate growth?

Mohit Joshi: I just want to mention that telecom practice is very central to TechM and obviously we have invested over the past few decades very strongly in the practice, and I feel that we have world-beating credentials in the sector, but the reality is that the sector itself is stressed, and client spends have been very tight. Now, it is possible that the poor environment will result in a significant amount of consolidation and cost take out deals in the future and we will play in it. We are also looking to build out our platforms from a Comviva perspective that help our clients increase their ARPU, and to increase the longevity of their contracts, help them from AI and from a next-best action perspective. So, these are all the things that we're looking to do. But the reality is that telecom for our peer group and for us has been a low spend sector over the past 12 months and this sector that professional services firms, tech services firms have struggled in. So, our experience from a spend perspective is within the range of what our peer group has seen.

Moderator: The next question is from the line of Vibhor Singhal from Nuvama Equities. Please go ahead.

Vibhor Singhal: Mohit, just to follow up on the previous question, I think telecom sector, I think you gave a very good comprehensive view of this. I would just like to maybe just extend it and basically take your views on specifically the Manufacturing and BFSI capabilities for us. You mentioned these are both a billion-dollar portfolio for us. Manufacturing specifically, I think has been quite stagnant, if I look at the last five years, we haven't gone anywhere in terms of overall size of revenue, whereas BFSI of course I'm sure you would know so much about the industry. So, where do you think are the capabilities of TechM maybe lacking that we've specifically in these domains, organically, the growth has not been that great, and any specific pockets that you were able to identify or white spaces which you would probably want to fill in to be able to drive the growth to the levels over the next two years?

Mohit Joshi: So look, Manufacturing, I feel that historically again given the heritage of our parent, we have a very, very strong practice. If I look at it from an industrial Manufacturing perspective, it goes all the way from the product perspective, things like product design where we have a significant digital capability, but also physical capability given Pininfarina we have done a lot of work from a production perspective, so whether it's factory of the future or the green factory or the work that is going on from a supply chain resiliency perspective. We do a lot of work from a performance perspective, which is the after-sale warranty, spare parts management, there's a lot of BPS work that we do in the sector. And finally, we also work on the experience side. As more and more manufacturers go to direct-to-consumer business models and as they look to build on their e-commerce capability, there's a range of capability that we have in TechM across product, production, performance and experience, and we're looking to build on this. What we're also doing is that we're working very closely with our colleagues on the M&M side and the broader group side because the group does have a range of global relationships, whether it's supplier relationships or co-development or partner relationships, everybody from chip manufacturers to car brake manufacturers we're looking to see how we can leverage these group relationships to build our capabilities. The Mahindra group is recognized as an innovator from a Manufacturing perspective, whether it's in energy consumption and sustainability or the factory of the future that we have built together in Chakan. So that is all things that we'll be looking to use and credentials we will be looking to use to build out our Manufacturing practice. It is a real area of focus for us. And I feel an area where we have a natural right-to-win. As far as the BFSI business is concerned, like I said, we have a billion-dollar business, we have a range of capabilities through some of the acquisitions. So, we have I believe the only digital engineering capability in financial services, thanks to our CTC acquisition, we have a very high end buy side and custodian consulting capability through Citisoft, we have a transaction processing capability through Target, and obviously we have our own organic capabilities. So, I feel that we are able to stitch together a compelling narrative using these capabilities. We have put together a very good team and we are working together and myself leading a global vertical interlock to start building solutions to start reaching out to clients. I'm very confident that we have a compelling story to take to banks and insurers across the world. But again, it will take time. Our peers have built out their business over decades, we are just starting out, but I'm confident that this is a story we can build on.

Vibhor Singhal: Just one small question for Rohit. You mentioned that the adjusted margins for this quarter was at around 7% for the 150 basis points exceptional item. Now, I don't want the numerical details per se, but if I compare it to the year-on-year margin, last year same quarter we did 12% margins. So, assuming that the 7% margin is the core margin of the company, any specific heads that you would probably want to highlight, whereas that 500 basis points gone this year because the 7% is excluding the exceptional items, maybe the growth is lower because of that, I think the numbers got impacted, but given that utilization is also at around 88%, where do you believe large chunk of this margin has gone out so that it's easier for us to build in as to when the recovery margins happen, where are the pockets that we could be probably looking at?

Rohit Anand: I think broadly if you look at it the wage inflation that we saw the annual hikes that we did at the beginning of the year with the market that we saw through the year didn't come up with equal and price increases. That's a big value drop. So, that contributed significant portion of it. And additionally, I would say with the service revenue, that has dropped through the year from where we started, we were at 1,668 last time to where we are now, that service revenue drop has contributed to kind of a deleverage in that context and caused the pressure from a cost perspective, not off at the same pace.

That both has caused the decline and then outside of that, as Mohit mentioned, I think we're looking at getting that back into the right equation, and once we get that back into the right equation, working on all the operating levers that we've kind of devised for ourselves.

Vibhor Singhal: And as utilization at 87.6%, do you think they peaked out?

Rohit Anand: We still have the opportunities to get value there, but as we chart out a plan in April, we'll share more credentials around it.

Moderator: The next question is from the line of Sudhier Kundapalli from Kotak Mahindra Asset Management Company. Please go ahead.

Sudhier Kundapalli: The track one and track two you mentioned, which is sales growth and margin improvement, do you think at least over the next one year or so we'll have to trade off one for the other? If yes, what will be your trade off or do you think we can have a Goldilocks kind of a scenario where both growth and margins can improve in tandem assuming a stable macro?

Mohit Joshi: So, look, I think it is very hard to tell. I mean, obviously we are hoping for a Goldilocks where we can use and it's obviously much easier to deliver a credible margin improvement story if we also have growth. But at the end of the day, I think as our top team, we are very clear that if we have to make a trade off, we will deliver the margins because we don't want to do substandard growth or get into poor contracts or do marginal deals just for the sake of showing growth. So, we hope we can deliver growth and margins in the long term, but in the near to medium term if we have to do a trade-off, we would focus on not doing suboptimal deals.

Sudhier Kundapalli: Just a quick clarification from Rohit. So, why is Comviva seasonality being called a one-off? Our understanding is that this is sort of pass-through revenue which is seasonal. Is that understanding incorrect, or this is a pure one off relating to revenue from some discontinued business plan?

Rohit Anand: So, one-off is not Comviva. I said one-offs in certain product deliveries that happened in other side of the business which was additionally supplemented by an increased quarter-over-quarter on the Comviva seasonality along with retail offset by the furloughs.

Sudhier Kundapalli: Just one more clarification. Of the 500-bps odd margin contraction that we had seen over the last 12 months, is there any element of the earn out component payments to, let's say, some of the companies which we acquired over the course of calendar '20?

Rohit Anand: Sorry, can you just repeat that question?

Sudhier Kundapalli: So, I was saying the margin fall that we had seen in over the last nine to 12 months of that 500, 600 basis points, is it partially also contributed by any earnout components we would have bagged. So, some of the portfolio companies which were acquired over calendar '21 and calendar '22.

Rohit Anand: No, As I explained, the main drivers are what I mentioned, wage, not accompanying for the pricing increase, and then the service revenue dropped, while there are certain macro positions that have impacted certain portfolio companies more than the others. But the earnout or any other accounting information there is not in practice.

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

R Jhunjhunwala: I have three questions. See, firstly, if we look at our utilization is pretty much at like 10-year high barring one or two quarters in Fiscal '22, and on the flip side, if we look at our subcon expenses, it is a decade low as a percentage of revenues, and still, our overall headcount is declining sequentially and even on a year-on-year basis by 7%. So, just wanted to understand our strategy around managing employee pyramid -- is it clearly a reflection of how we expect revenues to play out over the next two, three quarters where growth could still continue to be challenging or are we stretching it significantly and then if demand comes back not having adequate capacity?

Mohit Joshi: The headcount decline that you've seen quarter-on-quarter is largely because of BPS and that's largely a seasonal issue because of the holiday season and the changes that happen. Overall, we are moving from more of a subcon focus to more of an employee focus, which is why you're seeing a decline in the employee numbers. If you remember last quarter, we were actually asked a question saying, why are you the only company in the industry that is adding headcount when everybody else is dropping headcount, because we added freshers in the last quarter? So, I don't think there is any overall better narrative that you can read into these quarterly fluctuations. We are looking to add freshers, we are looking to build a pyramid, we are hopeful that we will see the market will turnaround, but we recognize the current reality. So, I think apart from the fact that we are shifting from subcons to employees, there really isn't anything broader that you should read into this.

R Jhunjhunwala: The second question is just in terms of TCV. So, on a trailing 12 months, we are down about 40%. If we look at the industry on an aggregate basis, there hasn't been a lot of sharp decline on a year-on-year or a trailing 12 months basis as well. How much of this decline do you attribute to the changes that we are trying to make, and as a result, in how much time do you think we will potentially go back to how industry is able to grow the TCV?

Mohit Joshi: Look, I think part of it is the lumpiness. So, if you recollect, we had a very good quarter, the previous quarter where we did over 600 million in large deals TCV. So, part of it is just the lumpiness within a quarter, but part of it also reflects, again, our sectoral split on our industry exposure, and part of it also reflects the fact that we are being more deliberate, I would say, cautious or careful, we're being more deliberate around the contracting that we do. But again, I don't see any broad competitiveness issues in the market or any sort of structural challenges in our client engagements. So, this is just the natural ebb and flow and the natural lumpiness of large deals.

R Jhunjhunwala: If we look at the last eight quarters or so, our interest expense is almost quadrupled, whereas our debt and lease liabilities have remained largely flat. So, what is the reason for such a high increase in interest expense?

Rohit Anand: The interest expense, I mean the rates being caught when we started these were almost zero, 1%. So, over a period of time there's been increase in the interest rate, right now is more like 6%, 6.5%. Interest rate expenses has caused the majority of that increase, but the absolute loan amount has not changed.

R Jhunjhunwala: No, I'm just wondering, I mean, we are anyways net cash company in a big way. So, do we really need to carry that kind of a debt at that interest anymore?

Rohit Anand: Something that we are evaluating based on the cash balances we have. We'll take an appropriate call as we move forward.

Moderator: Ladies and gentlemen, we will take that as a last question. I would now like to hand the conference over to the management for closing comments. Over to you, sir.

Rohit Anand: Thank you everybody for joining. Again, want to just recap, I think, as you look through the year, we've done a lot of actions in terms of looking at our portfolio, certain choices that help us stand in long-term and what the company strategy is going to be. We will come back to you in April with an extended earnings call where we share our strategic plan in a little bit more detail. We're working through the detailing around it within the organization with the leadership team and take you through how we'll position the company from a long-term perspective and walk through all the contours of that plan. So, that's where we're working on and we'll share more as we get together in April. So, I thank everybody again for joining and your continued support to the company.

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