# "Tech Mahindra Limited Q4-FY15 Earnings Conference Call"

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**Moderator**: Ladies and Gentlemen, Good Day and Welcome to the Tech Mahindra Q4FY15 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 the conference call 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. Vineet Nayyar – Executive Vice Chairman, Tech Mahindra. Thank you, and over to you, sir.

**Vineet Nayyar**: Good morning, good afternoon, good evening and welcome to the Tech Mahindra Financial Results for the Fourth Quarter and the Financial Year ended 31st March, 2015. I am aware that these results may have come as bit of a surprise to you and they may not have looked as good as we anticipated. Let me assure you that they are also not as bad as they appear on the face of it.

Let me try to give you some perspective on our performance and way forward; I will first talk about the full year and in many ways that is a good setting to start with. I am happy to report that our FY15 revenue growth is ahead of industry growth rate. We have reported 19% revenue growth in US dollar terms which translate into about 2% of growth rate in constant terms. Our organic growth was primarily driven by an exceptional growth in our Communication business. In Q4 we acquired Lightbridge, as you know, a communication corporation thus helping us emerge as one of the leading global service company. This acquisition has established TechM as an unique company with comprehensive portfolio across IT, BPO, Networks and Digital Services.

Our Enterprise business had a growth rate of 13% which was better than some of the peers; however, we recognize that there is significant headroom to grow and to realize our potential.

In FY15, we also strengthened our competencies with the merger of Mahindra Engineering Service and acquisition of SOFGEN and BASF IT.

Now, let me comment about this quarter which must be a source of worry to you. As I mentioned, it has been a soft quarter with our results being impacted by slow decision-making in some of our key customers for transformation initiatives. In recent times, the global economy has been shaken by dramatic decline in oil prices, significant jump in the value of dollars, slowdown in China, uncertainty in Europe and anticipation of a shift in monetary policy. But these are general macroeconomic conditions which have softened the market for IT. In our particular case, where perhaps the fall and sharper, there are two or three distinguishing reasons: firstly, our wage hike comes in this quarter unlike other Indian IT companies. Secondly, we have a relatively large proportion of business in Europe, Canada, Australia and New Zealand, and these were the countries which suffered the maximum fall in the value of their currency. These situations impacted on somewhat larger decline in Q4 by Tech Mahindra than other companies perhaps did.

What does it mean in terms of our business going forward especially in the next few quarters? I think it will take us one or two quarters to overcome the current problems, but we are confident that we will be able to do it. I have our entire management group with us will and can respond to you if you have specific questions. Net-net, we are not discouraged, net-net, we believe we had a decent growth and I look forward to a good year as we enter FY16. CP, would request you to add.

**CP Gurnani**: Thank you, Vineet and Good Morning, Good Evening, everybody. I do believe that this quarter is part of a much longer journey. We continue to engage with customers in the way they respond to their customers. Overall when I look at our customers' profile, I look at the industry profile, regional profile, diversity of our geographic reach and I think there are a lot of opportunities. Though statistically we have grown 6.4% quarter-on-quarter, organic business has shown de-growth of 1.2%, annually we have grown 19%. We as Tech Mahindra believe that our performance across most areas has been good. Our partnerships with our key customers have only increased. Our capability addition through some of the acquisitions, whether it is Engineering Services, whether it is SOFGEN and LCC I think make us only a stronger company. Our growth strategy around M&A and creating portfolio companies will continue to give us the fuel for further growth. Going forward, we look at now the technology landscape demanding a number of new skills. We have moved Jagdish Mitra who is our CEO of CanvasM to look at our R&D/Transformation/Growth Factories. He is looking at new product portfolio which will be empowering the consumer, and new product portfolio or a platform portfolio which will be developed in conjunction with the customer. He is also looking at what one of the consultants' calls as "Digical". Digical this is really digital plus physical, that we will continue to invest in growth areas. We applied for the payment bank license because we strongly believe that the technology that we provide in Mobiquity® the technology that we provide for the mobile wallet, is a good combination. We will do partnerships and will become a Digical company. Communication business which accounts for 50% of our business continues to be the backbone of technology. Technology budget may have shifted to our chief delivery officer, chief digital officer, chief marketing officer, chief technology officer or chief customer officer, but the reality is that the backbone of the business is still technology and that is what we are specializing in. The deal engine is only stronger compared to the same time in the market. Our active client base has grown to 767, out of these 87 clients have come through LCC and SOFGEN. We closed a very strategic deal and we announced that last quarter where we had transferred a few employees in Israel and in Europe and in Americas. We have also been able to sign a few large deals in Enterprise. I think it just augurs well for the organization. Our total headcount has grown to 103,000. Our attrition is the same as last quarter at 19% and most of you recall that our budget was always built at 18% attrition.

Two fundamental questions that I know that we have to answer to you; one is the reason for a drop of 500 basis points. It is a 200 basis points due to salary increase; ~140 basis points because of LCC, SOFGEN acquisitions. SG&A has gone up this quarter and probably will remain a little high because obviously there is SG&A that is going in for the integration of some of these acquired companies. Till it translates into improved productivity or improved efficiency, similarly, on the FOREX side, it was ~90 basis points. Overall, I would only say that none of these costs were a surprise. It has been part of the business and going forward, me and my management team are going to focus on three things: #1 is on consolidation; #2 is on working on some of the operating levers and we do have a task ahead of us which is about improving utilization, reducing some of the layers between the various parts of the internal organization and the acquired companies, and hence being able to provide a much simpler platform to our customers. Onsite-offshore ratio is another operating lever. We are focusing on operations. Thirdly, our customers are continuing to change and I have already shared with you that we will continue to focus on R&D and growth factories. So I remain optimistic regarding FY16. The slower growth or negative growth organically is a temporary phase. Margin improvement definitely is high on the priorities. I think we open it up for questions now. Mr. Milind Kulkarni— our CFO, Mr. Manoj Bhat — our Deputy CFO; Mr. Rakesh Soni — our Head of HR and Chief Administrative Officer and other colleagues Mr. Manoj Chugh — Global Head, Enterprise Business; Mr. Manish Vyas – Global Head, Communications business; are on the call with me and we would like to get your inputs and also be able to answer questions.

**Moderator:** Thank you. We will now begin the question and answer session. Participants are requested to use handsets while asking a question.

**Anantha Narayan:** This is Anantha from Credit Suisse. I had two questions. If I look at your business model and some of the areas that you are focused on, what do you think is the sustainable margins over a 3-5-year timeframe? Would you think that an EBITDA margin of somewhere in the early-20s is something which is feasible for your business?

**CP Gurnani:** It is very difficult to predict 3-5-year timeframe. When we look ahead there are two or three changes that are definitely happening as we speak; #1 conventional outsourcing as a main pile of the business and I am using the word 'conventional outsourcing' which means T&M, plus projects plus some long-term projects. For many of us in IT industry I think those equations will change as we go along. Yes, there would be Managed Services, but the reality is that the CIO function is now becoming more of a business function and a traditional CIO function is becoming more of a chief data officer. The various avatars of technology are changing and all of us are trying to work with consumers whose landscape is changing. The second part is that the industries are changing. The reality is that Healthcare after 5-years may not be as much hospital-dependent; Life Sciences may not be as much as typical diagnostics and typical drug delivery method. So things are definitely going to change. Hence it is very difficult for us to predict what margin would be 5-years from now because the business is dynamic, and the market environment will be dynamic. All I promise you is that your company will continue to drive and invest for the future. And as we invest for the future we will be able to go through some of the cyclical curves but overall the net impact we will remain one of the fastest growth companies and we will be one of the decent margin, decent EBITDA companies.

**Anantha Narayan:** My second question was on the acquisition strategy. Just given the near term challenges on the margin front, does that change your strategy at all maybe at least for the near term?

**CP Gurnani:** I would not like to change the strategy and we will have a dialogue with you over the next one or two weeks and I will definitely entertain any suggestions or recommendations. Let us look at what is our strategy: Our strategy is that our 700-customers are our partners. If our 700-customers are our partners and we as a partner will deliver technology solutions to them. So #1 is that out of these 700-customers, at least 150 are global customers. They need support in Africa, Eastern Europe, and South America and so on and so forth. If we need to build capability for that, with the language skills… the same way if you recall, FIFA wanted us to support Brazilian World Cup, We have very limited presence in Brazil. We went and acquired 50% of a company called Complex IT and we delivered to you last year around the same time in June,  64 matches of the World Cup in Brazil, but net-net during the journey we have now become 1100-people company in Brazil. My point is that I will always work with my customers to meet their technology requirements, geographic requirements and to be able to give them solutions which allow them to be in the forefront of technology. If that is my strategy I will need a new technology solution, new geography or a market reach. So, I would like to state that M&A is part of our strategy. It is the same reason why we bought LCC. LCC was a requirement. Many of our customers were finding a technology environment homogenous, whether it was an enterprise network or a services network, and within that place, they wanted a supplier who could integrate OSS, which was our operating systems platform and a network management platform and integrated service desk between IT networks and OSS and be able to provide the back office seamlessly. M&A is and will remain a part of our strategy. I am going to request Vineet to comment on the margin part of it because I think again it is part of our strategy but Vineet has probably got some views on this.

**Vineet Nayyar:** We have had a blip on the margins, but if you look at the underlying reasons you would find that there is no endemic weakness in our operations, we have had currency erosion, value of currency getting eroded, we have had 2% cost on account of the wage hike and a number of other reasons which I enumerated earlier. We will get over this blip as we go forward. Also, do not forget that we have taken some large contracts and done some acquisitions which are in the first year. As you know, acquisition of customers on a long contract in the first year also requires us to continue to maintain all the employees which were there. Over a period of a year, year and a half, these folks will be redeployed by us on our other operations, part of the work will go back to India… in fact, and this has been a strategy consistently. That is why almost all our acquisitions did impact our profitability in the first quarter and after that they were absorbed into the mainstream and we picked up on EBITDA, I think the same will happen again. Yes, I am worried about the EBITDA having come down this quarter but I am not overly worried that whether recovery is possible or not, I do believe it will happen. If it does not happen in the next quarter it would happen in the quarter thereafter.

**Moderator:** Thank you. The next question is from the line of Surendra Goyal from Citigroup. Please go ahead.

**Surendra Goyal:** **C**P, you mentioned a point on changes in the market and changes to conventional outsourcing. Wanted your thoughts on a couple of related issues; firstly, how big your exposure to the conventional outsourcing space would be at this point of time?

**CP Gurnani:** In today's environment I would call operations which is BSG plus some of the Managed Services business will be ~20% of my business, that means where I run operations piece; Engineering Services would be approximately 10% of my business;

then when I look at Products, Mobility kind of solutions, I would say it is ~5%, that means we are white-labeled inside our Telco and this revenue earning that is happening. That really account for 35% of my business, of the balance 65% I would say is keeps the lights on and ~35% would be change or transformation. Just giving you top of the mind recall but I am sure even if I go through the data, it is not going to be too much out.

**Surendra Goyal:** Second part was on investments in the new areas and could that mean a further challenge to margin in the near term?

**C P Gurnani:** I will not consider it as a huge challenge because the way I look at it is that like any other large company I need to have a budget for R&D and investment for new business or new technology is part of my R&D spend. It is just that we in IT companies do not go around talking about R&D spend. I will give you an example; last 1.5-years, we have been incubating part of our program internally has been what is called as "Empowering the Customer Directly."; in simple English it is called "B2C Business" it is a digital platform for B2C business. One of the products that I now launched, we have some advertisement on the TV is called "Saral Rozgar." If you ask me how much will I spend on that. Two levels of arguments I will get; one argument will be that yes, I spent about $3-4 million on that product and the other argument would be out of the $4 million, maybe $2.5 million were people from the bench. So my point here is that I am right now taking it as a business in the stride, but yes, there could be one or two quarters, for example, Saral Rozgar wants to spend $3 million over the next 2-quarters in advertising. Now, ultimately, Milind and the board may come back and say that we will fill it up as a separate subsidiary but that will be a different balance sheet treatment. If we decide to do it within Tech Mahindra, like any other Digital business, $3 million of advertising is not going to give me a return today. I am giving you just an example but all I am trying to tell you is that running vibrant company should be making those calls and should be making those decisions.

**Surendra Goyal:** Could you share the TCV of deals won in the fourth quarter?

**Manoj Bhat:** It is about 175 million this quarter.

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

**Sandeep Shah:** The first question is in terms of Telecom. Though we were sounding little cautious in the last quarter itself but if we just look at the performance with the top five clients it looks like there is some change in terms of the way the IT spend happening in the Telecom. So can you give some color is there this is like a short-term aberration or there are some change in terms of prioritization of IT spend release from the telecom clients?

**CP Gurnani:** Sandeep, let us be realistic. This quarter if I go back, I had a major customer in mining in Australia, where I had a business contraction. I was scared of going out, picking up a call coming in from Houston. You know the reason. Similarly, if I look at Telecom, I have never seen them more energetic or more gung-ho about their own business, because clearly, technology is becoming part of everybody's life, every time there is a new sensor coming in or a new internet of everything coming in or a cloud coming in, or mobility coming in, for all ultimately the backbone is the Telecom. Now, the same telecom customers also realize that the convergence between telecom, media, entertainment and content is happening a lot more rapidly because ... at least I have a 27-year old and a 23-year old, both of them live separately, both of them do not even own a TV, both of them do not have a telephone line. The point, I'm trying to make is that if their medium is only iPad or whatever they do, the convergence is happening. Yes, some of our customers whether they were in mining or commodity, or in oil and gas, who could have been in a different industry, have had to change their strategy, have had to look at the alternate new business programs and that all depends upon if somebody expanding geographically, or if somebody is shrinking. If somebody looking at their spend right now, because they are looking at a new acquisition. If somebody merging the two companies or somebody separating two divisions in the company. All I am trying to say is, they are all realities. Yes, Telecom is going through a much faster change. I think Vineet has a nice sentence for it where he uses "Telecom companies are trying to be something else and some other companies are trying to become telecom companies."

**Sandeep Shah:** Just in terms of the Enterprise vertical also, can you give some color in terms of Manufacturing versus what we anticipated and what has happened? We do agree there could be a cross-currency headwind but in constant currency what has happened outside the Energy and Utilities which I believe you club it within Manufacturing?

**CP Gurnani:** It is more of cross-currency, more of Energy and Utilities that has caused a little bit of shrinkage. In Manufacturing we take care of Aerospace and Defense, Oil & Gas etc. Those two industries are going through their cyclical terms. So, overall if I look at Engineering as a practice, if I look at Manufacturing as a practice, the pipelines are pretty robust.

**Sandeep Shah:** So do you believe this is a quarterly blip and Manufacturing should bounce back in the coming quarters?

**Manoj Bhat:** This is Manoj. Clearly, I think we have had some decline in Manufacturing, but I do believe if I look at the next two quarters the decline is something which does not worry us, it is not something which is endemic to Manufacturing or anything like that. I do believe that we will stabilize in the next quarter and we will start growing from there. So that is the way I look at it.

**Sandeep Shah:** So there is no project cancellation ?

**Manoj Bhat:** There is no project cancellation which is impacting the numbers.

**Sandeep Shah:** On the employees' side, it looks like that on an organic basis there is a decline in the employee but versus that the organic utilization has gone down materially. So why this is?

**Manoj Bhat:** First, let me explain it from a number perspective; if I look at the organic business really organic onsite ratio has gone up during the quarter and of course we have spoken about some of the revenue declines we have seen. So the combination of those two is bringing down utilization. In my mind actually that creates a lever as we go forward because clearly if I look at the various levers we have, the most immediately were in mind is utilization because as you know attrition is something which happens every month and we always need people to replace those. So that is something which is a controllable probably in the immediate future. In terms of the explanation, we foresaw some of the de-growth earlier, so that is why some of the employee headcount reduced, but then we also didn't anticipate some of the last minute changes, which has caused this aberration and it will be fixed as we go forward, I just see it as a normal operation process of fixing some of our metric.

**Sandeep Shah:** So what was the addition through LCC and SOFGEN on a net basis?

**Manoj Bhat:** I think about 6,950 odd people; we can provide you, that is a rough number.

**Sandeep Shah:** Most of the organic employee decline has not happened at the end of the quarter?

**Manoj Bhat:** It would have happened towards the end of the quarter.

**Moderator:** Thank you. The next question is from the line of Priya Rohira from Axis Capital. Please go ahead.

**Priya Rohira:** If I look at the deal pipeline at the end of the quarter and what was it at the start of the quarter, do you see a material difference? Did we say that in the Telecom vertical the pipeline is much better than last year and you hope to end FY16 with a much better revenue base?

**Manoj Bhat:** If I look at the Communications vertical and look at the last 2-3 quarters, I do not think we have had a large deal wins in the previous quarter, the last deal wins came only about a month back or so which is the Comverese deal. So while the pipeline was there, we have seen some slowness in deal closure on the Telecom side, and as we speak, I think the pipeline is building up. On the Enterprise side, clearly, the pipeline is there and there have been a consistent win record there. So that is the high level answer, but I would ask Manish and Manoj to dive deeper and present more color on how we see the pipeline building up during the quarter.

**Manish Vyas:** Priya, Manoj is right, I think the pipeline overall at this point in time is very-very healthy and we alluded to some of these areas in the past and the previous quarters as well that the network, the integrated Managed Services as well as the transformation in the Applications space is what will continue to drive the pipeline. And that is largely because of the speed at which the telecom companies are now transforming themselves; CP alluded to that a little while ago. So clearly, the consolidation and the transformation that is underway at this point is driving some of the funnel.

**Manoj Chugh:** Priya, Manoj here. Just adding on to Manish, as far as the Enterprise business is concerned, clearly, our coverage has improved over the last few quarters and this has resulted in a growing pipeline. From verticals perspective, clearly, Healthcare, Life Sciences, Retail, Consumer Packaged Goods stuff that we do on the Travel, Logistics side are all showing an uptick in terms of our pipeline and also on the Technology, Media, Entertainment side. I would say it is very broad-based in terms of the growth that we are seeing in our pipeline.

**Priya Rohira:** How has the win rates changed over the past few quarters with respect to the Enterprise vertical?

**Manoj Chugh:** Our win rates have absolutely improved, particularly, when we start looking at new business, that is net new business to us, you have seen a robust increase in terms of a number of customers, Priya, over the last several quarters. So we are pleased that our win rates are going up. Should they be better? Absolutely, they should be better. But we have made good progress.

**Priya Rohira:** What would be the effective tax rate which we should consider for FY16 and FY 17?

**Milind Kulkarni:** Our effective tax rate last year was about 26.5%, I think the tax rate would continue to be in that same region 26%.

**Moderator:** Thank you. The next question is from the line of Sandeep Muthangi from IIFL. Please go ahead.

**Sandeep Muthangi:** I have a quick follow-up question on the commentary about Telecom vertical. I understand that the pipeline is robust, that is really good to hear. But, what are the kinds of opportunities you are seeing from your existing accounts — are there any opportunities to cross sell and if you were look to 3-5-years down the line, how do you see the nature of the incremental business from the existing versus new clients, any color on that would be very helpful?

**Manish Vyas:** Very much in line with what we have been engaged in the last couple of quarters is what will continue to drive the funnel and the activity. And the areas are networks, that includes Engineering, this is an area where we have historically been not very big in, but in the last couple of quarters we have invested in this space, we have created a separate focus customer group called "Communications Technology Providers" we have gone ahead and included not just the big box equipment manufacturers, but keeping the trends in mind, that things are becoming technology, particularly in the Telecom, network space is becoming more software-defined, we have started building relationships with a lot of the software companies as well. And the results are already showing; Q1 for example, you probably recall we have announced a deal, we have continued to grow this space. The third of course is transformation. As the telcos continue to look to do more and more digital and whether it is their customer interactions, whether it is their internal IT or for that matter, the network, we will continue to see a lot of investments that will happen. Maybe the same amounts in terms of the dollar value year-on-year which has been the trend over the last 4-5 years, but the spend will shift to some of these transformational areas than the other. The other thing I want to highlight… and I missed answering to the previous question is the funnel as we grow hereafter is looking even more holistic in terms of the regional presence across the world and it is not limited to one geography or the other. The long-term horizon also really now into pan out, particularly this year in terms of how exactly these firms will transfer themselves which will drive the activity for us… I do not know 5-years down the line but from a near-term 2-3-years standpoint based on what we are seeing today because this will result in the activity over the next 2-3 years, it clearly looks to be in the Digital, Network, Engineering, and the overall transformation space, and it looks that fever is catching up across the world, it is not just limited.

**Sandeep Muthangi:** One clarification I wanted. This business historically has had an impact from a leaky bucket in terms of either concerns with one large account or some clients ramping down. Do you see any such issues in the near term? I understand that the pipeline is robust and there are a lot new initiatives, but is there a risk in the near term of client ramp downs continuing?

**Management:** I think the budget pressures and the consolidation related activity like I said is all across, in fact, even as late as yesterday you saw a few cable companies announcing they tend to try and become together. So that will continue. I do not think it is anything that is extraordinary that one needs to worry about at this point in time, it is an overall trend and an overall reaction and response that the industry is giving to the forces that they are in terms of how they need to be evolving and competing and we all know this has been something that the telcos have been working at for several years now and the kind of legacy that they bring in, brings the resilience but at the same time also has made things more complicated for them, but like we have always said over the last couple of decades if there is one industry that has the reputation of being resilient and transform itself is this and I think that we believe will continue over the years.

**Sandeep Muthangi**: On the margins, especially on the SG&A part of it, you explained about 350 basis points of margin hit from the consolidation and the wage hike. But, can you give me more color on the SG&A and what is the nature of it? I guess my question is primarily because some of these seem to be one-off because of the integration costs, but when you commented on how soon you can recover those SG&A costs, it is not clear as if you have a clear plan or thought out process of when this SG&A costs is going to be recovered?

**Manoj Bhat**: Quickly, let me kind of go through the margin decline and then each of those points again so that we are very clear on what we are saying. So the first bit is a wage hike and I explained that typically, historically, we have recovered those in two or three quarters and we would endeavor to do that even this time. The second is the currency ~ 90 basis points. I do not know where the trend will be but current trend is that it is probably incrementally positive from that perspective. The third piece of it is LCC which was ~ 150 basis points reduction. So that adds up to about 4.5% or so which is effectively something which if I look at the LCC standalone the margins this quarter were lower and they were about 2.5% EBITDA margins which is not normal for the business. That is something which we do anticipate where there is a little bit of focus… and you must understand this is the first quarter of integration, we do anticipate that over a period of some time, that LCC would go back to some of its historical metrics so that is the other piece of it. The last piece is two things – SG&A and utilization explain the rest. SG&A is almost constant in absolute numbers but since the revenue performance is lower than last quarter it is just a percentage is which are swinging. The other way to interpret this is that we are in a position where there is operating leverage available through SG&A and that is a function of revenue growth because we do believe that in this market we need to be present and that means a certain amount of investment in SG&A and that is something we would obviously as usual we would try to optimize wherever we can. And utilization I spoke to you about that, which is probably a more immediate lever available for us. So that is kind of the margin bridge and how we are thinking about margins.

**Moderator**: Thank you. The next question is from the line of Abhiram Eleswarapu from BNP Paribas. Please go ahead.

**Abhiram Eleswarapu**: I am just looking for a data point on constant currency growth for the quarter either just organically or for the overall business.

**Manoj Bhat**: For the quarter, let me split that, our reported number is about 984 million, about 100 million came from acquisitions, let us ignore that, so our actual reported organic is about 884 million and our last quarter was about 924 million, so that is about a 4.4% decline, out of which 3.2% is due to currency and 1.2% is constant currency de-growth. So we actually declined in constant currency terms.

**Abhiram Eleswarapu**: So if we strip out the currency then you are saying that on an organic basis, the incremental positive fall came primarily from across the board, it is not a big deal actually, 1% you are saying just excluding currency?

**Manoj Bhat**: Yeah it is 1.2% sequential decline excluding the currency impact.

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

**Rishi Jhunjhunwala**: First of all on the margin side, just wanted to understand your strategy at what margins level do you think that a trade-off between growth and margins going to hit the balance in the sense that beyond a level you would not want to do acquisition or further increments for the investments in the business, currently, the margin will be 12.5% for the quarter, I know there is a ramp up, but at what steady state margins would you think that incremental investment in both will not to be as necessary.

**Manoj Bhat**: Let us talk a little bit about acquisition strategy, CP alluded to why we would do an acquisition and I just want to refer to the kind of acquisition we would do also. We would value buying which is that if we believe we can add value through some improvements in the operations of the company or the revenue side of the company and that would incrementally add to the margins for the acquisition. So, in a way my definition some of our acquisitions especially they are onsite-centric, would have lower margins than our normal business. I do not think we are going to change that approach because we do believe that over a period of time we would be able to turn these companies around at least in terms of margins and with better integration and synergy with the overall Tech Mahindra capabilities and groups. The second question is as I explained, this margin number, obviously, includes certain reversible kind of elements which we hope to recover during the course of the next few quarters… I do not want to put a timeframe and each of them is reversible. At the second point let us take the example of utilization, our utilization ex-trainees is 74%, I think the industry is at 83%, we have been at 78% in the past. So there is a lot of headroom even to go beyond where we were last quarter. Do not see that as a challenge. I do not want to put a number saying this margin below which we will not go, should not go, because that is a very situational kind of a thing, but clearly from our perspective, margin is an important factor and we will be focusing on that in the next 2-3 quarters and we will hopefully see the result as they come along.

**Rishi Jhunjhunwala**: On your top clients revenue decline, can you elaborate it value coming from the Telecom sector in US and what is the nature of the decline or the revenue compression in the account more because of the CAPEX spending cut by from the telcos or are you actually seeing some sort of overall decline in the spending in general? Basically what I am trying to see is whether are we seeing the market share attrition in the same client or they are each other?

**Manoj Bhat**: I do not think we are losing market share. Two-three things in my mind which happens and Manish alluded to some of it, CP did allude to some of it, there are certain periods in time to, so if I look at our top five clients they have grown quite a bit last year. We have seen a period of growth, we are seeing a period of consolidation which is probably going to be a smaller duration and then we will see a period of growth. This is how large accounts behave. So I do not think there is anything unusual in this which we see currently.

**Rishi Jhunjhunwala**: Because one or two of your larger peers, who are more prominent in the same accounts that you have are actually showing quite decent growth in Telecom side. Lastly, in terms of overall deal wins we have seen this quarter the TCV that you have mentioned is lower than what your average run rate has been for the past five or six quarters, and I am assuming that one large deal that has come is in the Telecom space. So on the Enterprise side, it seems like we have not been able to win largely this time around. So I just wanted to get some sense about where are we on that front and do we see any acceleration in the run rate?

**Management:** The large deal, which we won with Comverse, if it had come 15-20 days earlier, I would have been talking about a different number altogether. So these quarterly boundaries according to me actually do not signify something so strongly. In fact, if that deal had come through, we would have been talking about a much stronger deal signing quarter than ever before. So sometimes these numbers probably do not really reflect what is happening on the ground. I think that is the way you should look at it, Rishi. I do not think there is a reading that it is actually much-much lower quarter because it has dropped from… I think last quarter we had 260 million, this quarter was about 175 million. I do not think I view it that way, because just a 15-day difference would have made the number much-much different than what we reported.

**Moderator**: Thank you. The next question is from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

**Sagar Rastogi**: My first question was why was the margin for LCC lower in this quarter compared to its normal rate of 8%? Secondly, I just wanted to confirm this, the Manufacturing revenues drop was primarily because of weakness in the segments of Aerospace, Defense, and also resources', including Energy and Utilities, is that right?

**Manoj Bhat:** I think let me pick the first question. So clearly, I think you must understand, this is a large company we are trying to integrate which has complex operations globally. Secondly, I think there is an element of seasonality in LCC's business; so Q4, which is December quarter represents, is the strongest and Q1 is the biggest and it is also a business which has slightly different characteristics. Given that there are integration activities going on and the focus was on trying to make sure that some of the early stage integration happens quickly. There has been a small flutter in the performance and that is the way I look at it, and hence I said that the long-term average should hold and that will play out over the next two-three quarters.

**Manoj Chugh**: As you rightly said, there were a couple of factors which came together to create this perfect storm. I just want to also share with you that if I just see outside of Manufacturing for a quick minute actually in terms of constant currency our business grew 4.5% but to your point, Manufacturing was unfortunately a drag for us in Q4. So if I were to dissect this about half of the impact in Manufacturing has been on account of currency, our Manufacturing customers span across geographies, which I would say severely impacted from our perspective from a currency point of view, Europe, Canada, Australia, Sweden, Brazil, all places that you are familiar with got it by currency. On the Manufacturing side, we have got hit a little more. Second is Energy and you spoke about that as well; roughly about a fourth of our impact was on account of the revenue decline on the Energy side and we take Energy and integrate that as a part of our overall Manufacturing revenues as you know. And last but not least of all, some of our customers particularly in A&D did show slower momentum during the course of the quarter. So I think all of these three things coming together impacted our Manufacturing number in particular.

**Sagar Rastogi**: If you could just enumerate the headwinds and tailwinds for margins QoQ terms for 1Q? Specifically I understand visa hike impact would come in that quarter, which would be about 100 basis points if I am not wrong and utilization should improve. Is there anything else we are missing?

**Manoj Bhat:** The way I look at Q1, so there are two elements which are clear headwinds one is visa as you said and second is you must remember Q4 is the strongest quarter for Comviva and Q1 is the weakest quarter, in which follow through into the EBITDA margins for that business also. So that is a headwind. In the tailwind, I also said that now whether it is Q1 or Q2, utilization is small, probably a more immediate tailwind, I am not talking about currency because currency could move either way. In terms of the other initiatives I think clearly some of the recovery programs we have put into place early part or mid Q4 would show us some impact in terms of some reduction in our moving more work offshore kind of initiatives. So those will be the two immediate tailwinds I would imagine.

**Moderator**: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

**Ashish Chopra**: Just a couple of questions from my end. So while you describe a lot of scenarios around turnaround in margins, I just wanted to understand more on the lines of turnaround in growth. So given that in constant currency, this quarter has seen a decline and as explained due to issues in Aerospace, Defense and Energy also partly in Telecom, so do you expect some of these headwinds to continue maybe at least over the near term before you can start seeing the recovery or what would be the outlook on that?

**Manoj Bhat**: Ashish, I think we have been saying that from the mid or beginning of Q4 that Telecom is what we see is a two-quarter phenomenon from them. I think we would see some of these adjustments happening even through Q1. I think in terms of my view Manufacturing and other verticals at least we have stemmed the kind of de-growth and we can look forward to growth. Whether that growth is x-per cent or y-percent I do not want to get into that right now but clearly on the Enterprise side we do see an enhanced momentum coming.

**Manoj Chugh**: I think on the Enterprise side clearly as I said a couple of minutes ago, even if you look at Q4 standalone, outside of Manufacturing, we did demonstrate 4.5% quarter-over-quarter growth, clearly in terms of Manufacturing we are stabilizing and that is what we would see going forward in Q1. I have described how our pipeline is shaping up for the rest of the verticals and as Manoj has said, little difficult to say where we are finally going to land up in terms of the number which I am sure we will share with you in a few months from now. But clearly that is where the business is headed. I would say that in Manufacturing we know where we are right now and I think the other verticals continue to be promising.

**Ashish Chopra**: Manoj, you mention that LCC had a seasonally weak 4Q, and if 1Q is the strongest seasonally for them, then should that reflect some kind of revenue bump coming in the Telecom from that LCC segment in the next quarter, and also probably on the margins a little bit?

**Manoj Bhat**: I think that is a fair point, but as I said, we have just spent 2 or 3 months integrating, so I did not specifically mention that point, but yes, that is the possibility.

**Moderator**: Thank you. I now hand the floor over to Mr. Manoj Bhat for any closing comments.

**Manoj Bhat**: Maybe there are some more people who probably have questions, so Vikas is available and I am available to answer them offline. Thank you for joining the call and thank you for supporting us. Good evening, good night.

**Moderator**: Thank you, sir. Ladies and Gentlemen, with that we conclude this conference call. Thank you for joining us and you may now disconnect your lines.