“Tech Mahindra Q4-FY14 Earnings Conference Call”

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Moderator Ladies and gentlemen, good evening and welcome to Tech Mahindra Limited's Q4FY14 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. Vineet Nayyar – Executive Vice Chairman, Tech Mahindra Limited. Thank you and over to you sir.

Vineet Nayyar: Good morning, good afternoon, good evening. Welcome to Tech Mahindra Financial Results of the Fourth Quarter and of the full year which ended on March 31st, 2014. We have ended our fiscal year 2014 with satisfactory growth of 18% in US dollar terms thus delivering strong and possibly industry leading growth helping us to inch towards the Mission 2015. Before I come to numbers let me give a brief overview on the year gone by. We began on a positive note having completed the merger in Q1 and following it with a smooth integration during the year. In keeping with our strategy of investing in new areas, we also ventured in another area of network services in Q2 then we signed the Base Telecom deal.

I am happy to announce that based on our early success, we have achieved our objectives in establishing a strong reference customer for us in network services. We saw steady closure of new large deals in both the Telecom and Enterprise division. Our capability to work in such deals especially in the Enterprise side has been significant achievement this year. Our funnel is good and continues to grow with each passing quarter.

On the non-organic front, we continue to make select bets and investments in market through capabilities to merge with MES and in select markets through our agreement with BASF IT.

All in all we have had a reasonably successful year of growth and hope to continue the momentum. On the macro front, we sense the US economy responding and looking healthy after a brutal winter freeze that slowed growth. The US grew at a faster than anticipated pace in the second half of 2013 led by buoyant domestic demand, robust inventory, accumulation, and strong export growth. However, risk to growth in 2014 could be from geopolitical tension in the Ukraine region.

In the Eurozone as well we are seeing improvement in growth led as always by the German economy, their services and Manufacturing are of the upswing. Asia, Middle East, and Africa continue to give us good financial results and growth in percentage terms which is higher than the rest of the world. In terms of market we continue to be positive on overall potential for growth and we see our pipeline growing every quarter. Customer engagement and dialogue has been improving. However given the experience and the volatility in economic conditions the propensity to spend on discretionary IT continues to be lower and hence a major challenge. In such markets our share gain has worked well in Telecom and we are keen to try to replicate it in other verticals.

And now coming to the numbers for this quarter – revenue for the quarter was $ 825 million up 4.3% quarter on quarter and 18.2% year on year. For the full year, the revenue was $ 3,098 million a growth of 17.7% over the previous year. EBITDA margins were 21.3% for the quarter and 32.2% for the full year 2014. PAT for the quarter of $ 101 million and for the full year the PAT was $ 498 million.

Our key verticals – Telecom and Manufacturing led the FY14 growth with 22% and 18% respectively. We signed one large deal in Manufacturing during the quarter and we continue to gain traction in the marketplace. Total associate strength went up from 83,000 to just shy of 90,000. We have around INR 3,600 crores which is equivalent to $ 600 million in cash and cash equivalents on our books on 31st March. This is in spite of repaying about INR 800 crores of debt during the year.

With almost no debt on our books as of now we have decided to move up our dividend with the Board of Directors recommending a dividend of 200% for FY14, against 60% in FY13 i.e. INR.5 to INR.20 per share held. On the whole an extremely satisfying and iconic year for us. We hope to keep up this momentum and thank you all for the support and encouragement as we move forward towards our mission 2015. With this I hand over the call to CP for his comments.

C. P. Gurnani: Good morning, good afternoon, good evening everybody. Thank you so much for all your support. I guess Vineet has covered most of the highlights of this quarter and I can only reaffirm that overall all 90,000 associates are very proud of our financial year.

We had indicated to all of you that we would beat the NASSCOM projections. We had also indicated to you that the company has taken various initiatives in technology, in talent management, in growth of our global delivery centers, in growth and investment in new centers of excellence and also that Tech Mahindra will take advantage of the digital storm or a digital tsunami or a digital needs of the global connected world that your company has continued to invest. You company has leveraged their deep strengths in Telecom, networks, and mobility and have created a differentiated market for us, a differentiated value propositions for Tech Mahindra. I am also very pleased to say that our strategy for being able to offer engineering solutions, our strategy to offer backhand BPO services and being able to also build platforms to serve the market continues to be the right decision for the company. Our customers are embraced, our readiness, our service offering and I can only say thank you to my clients and to all of you. In terms of the business highlights, Tech Mahindra Germany has signed an agreement that BASF Business Services. This small acquisition will help us strengthen our reach and footprint in Germany. We acquired a stake in FixStream Network. It is one of the fastest growing spaces of visualization and in virtual networks, software deliver SDNs, technology startup company, it only shows that we are willing to put serious dollars behind a startup which benefits our end customers and benefits your company in the long run. Our footprint continues to expand with now a big development center in Belgium. We recently launched a center in Mexico.

Overall, I think not only has our results indicated where we are, all the awards and recognitions that we have got in the recent quarter reflect how well we are doing. So I can only share level of enthusiasm.

From our organization I have my colleagues; Milind Kulkarni, CFO, Manish Vyas – Head of Telecom Vertical, Manoj Chugh – Head of Enterprise Business, Rakesh Soni – Head of HR, and Sujit Baksi – Head of BSG and platform. I will now hand over the call to Milind to take you through the financial highlights for the quarter.

Milind Kulkarni: Good morning, good afternoon, good evening. Let me just take you to some of the financial highlights, some of which are already covered by Vineet and CP. So the revenue this quarter was $ 825 million as against $ 791 million last quarter, so a sequential growth of 4.3% quarter on quarter. Revenue in rupee terms was 5058 crores, a sequential growth of 3.3% quarter on quarter and 34% year on year. We had a volume growth of 4.6% during the quarter. Let me just say there was a business of one of our subsidiaries, Mahindra Comviva which is in VAS space which kind of peaks in the quarter 4 and the quarter 4 revenues are generally highest and we also did one BSG onsite project in Nigeria in Africa and this may not necessarily get repeated. Both these contributed around $10 million of revenue during the quarter.

On a full year basis, we crossed the revenue benchmark of $ 3 billion with a revenue of $ \3098 million which is a YoY growth of 17.7%. Our EBITDA for the quarter was $176 million. EBITDA margin was 21.3% as against 23.2% in 3rd quarter, a decline of 190 basis points. As you are aware the salary increases were effective 1st January, 2014 and that impacted margins by about 200 basis points as we had indicated in the last call. There was an impact of loss of BT amortization of about 50 basis points which also we had referred to in the last call. There were some higher transitioning costs during the quarter and there was also a small currency impact. These were on the positive side, we had better efficiencies as well as better SG&A leverage because of the sales growth and the net margin is impacted by about 190 basis points.

Now coming to our hedge position – our MTM hedges are GBP 170 million at INr. 95.26 and ULB 784 million at INR. 60.56. The MTM loss was $101 million as against $162 million as of December. $8 million of that was transferred to P&L and 93 million is carried forward in the results based on hedge accounting. Our other income for the quarter was $14.4 million. FOREX loss was 27.6 million as against 23 million last quarter. Interest dividend income was about 8.5 million and miscellaneous income 5 million. Our tax rate for the quarter was 25.1% as against the Q3 rate of 27.3%. For the full year our normalized tax rate worked out 26.5% versus 23.2% in the previous year. And the increase is explained by the fact that one of our major facilities which was enjoying SEZ benefit has completed 5 years of full tax benefit and now moved into a 50% tax slab. Our profit for the fourth quarter was $101 million and in rupee terms it was INR. 7614 crores.

As Vineet mentioned our cash equivalent was $601 million and our debt was about $61 million which was repaid on April 15th – the due date for repayment. As on today we are debt free company. Our CAPEX for this quarter was about $45 million and for the full year $131 million. Our debtor days were 96 days as against 100 days in December – an improvement of 4 days on quarter on quarter basis. The cash from operations for the quarter was $63 million impacted by delay in getting the tax refunds and part of that tax refund was of about $40 million was received in the first week of April and if we consider that the cash-flow as a percentage of EBITDA for the quarter would be about 60%.

As already mentioned the board has recommended a dividend of 200% i.e. INR. 20 per share and it works out to about 20% payout for the year as a whole. I think with this introduction I open the floor for questions.

Moderator: Thank you very much sir. Participants, we will now begin the question and answer session. We have the first question from line of Atul Soni from Macquarie. Please go ahead.

Atul Soni: Just wanted to hear your views on FY15 demand outlook.

Vineet Nayyar: Overall I would say that the demand outlook is positive. I can only react on our own deal pipeline. Our own deal pipeline compared to the same time previous year is showing at least 30% to 40% higher strength than what we had exactly a year ago. In general the mood seems to be a lot better than what it was last year. And though IT budgets have not really moved dramatically but we are looking at businesses not spending only from IT budgets but they are spending a little more from their marketing budgets or their innovation budgets or their R&D budgets and at least in Tech Mahindra service offerings we believe that we are interacting a lot with the business R&D marketing and the technology teams of our customers.

Atul Soni: Any view on margin going forward? Can you throw some color on that?

C P Gurnani: A lot depends upon how rupee against any foreign currency stabilizes but in general I would say operating margin, I think we are looking at almost maintain more at this stage.

Manoj Bhat: I think our EBITDA margins have come in pretty much where we expected it this year and I think given the current focus we have in trying to grow the business, I think that is growing to be a bigger priority today from an overall perspective. That is the only thing I wanted to add.

Atul Soni: Finally sir if you can give TCV of deals you have won for this quarter.

Manoj Bhat: So the TCV is about ~ $217 million of the deals we have announced in actually and average period is about 3 to 4 years.

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

Surendra Goyal: Following up on the previous question in terms of demand in this quarter we saw a good growth in Telecom but the non-telco part of the business was kind of flattish QoQ. So could you just comment on trends on the non-telecom part of the business as well?

C P Gurnani: I think the good news is Telecom and Enterprises more or less have started behaving as one entity internally and externally. It is very difficult to say that what is the Telecoms and customer. A Telecoms and customer is businesses. Where will the new growth of Telecoms come in from? I mean it is not only from the consumer. The moment you start becoming data driven, moment you start becoming value added services driven a lot of Enterprises consumer and the business faces are becoming one. So my belief is that Enterprise business clearly has more legs right now and the reason for having more legs is; 1 most of the businesses that we know the way they are whether it is an aviation business, I mean they try and re-shift themselves to become more digital Enterprise, whether it is an energy business. It is no longer about that I strike oil and I am able to sell oil. I mean it is a lot more about becoming more efficient, more productive, more predictable, more sustainable and being able to use data a lot better. So I will let Manoj give his views on this but I strongly believe there is no sector within the Enterprise sector which is not investing in technology and not investing in modernization.

Manoj Chugh: I think if you just look at pure numbers on the Enterprise side of the business, on a year on year basis certainly we have seen significant progress. You would remember that a growth in the prior year were about 8% and this year it is about 14.4%. So even if you look at it just from a standalone perspective I think there is a reason for us to be extremely pleased with our results. In terms of Manufacturing again we continue to outpace the industry and our numbers are before you. In terms of our pipeline we continue to see traction around BFSI, technology media entertainment and our Retail sector has done extremely well 22% year over year growth. So clearly on the Enterprise side we can do better but I would say if you were to compare our performance there is reason for us to feel very satisfied. I am also pleased that we work very-very closely with many of our service provider, Telecommunication customers to help them gain greater traction within Enterprise. So overall it is a two-pronged approach, no longer a single pronged approach.

Surendra Goyal: And Manoj just one follow up on the margins I think so we understand that the focus remains on growing the business but could you give any thoughts in terms of are you guys looking at flattish margins on constant currency basis or anything directional would really be helpful.

Manoj Bhat: As you know we do not put out the numbers per se, that is not our policy. But clearly I think you have seen the trend that margins have been roughly stable. That will be our endeavor but as I said I think the priority would always be growth over margin at least, given that we are seeing the market open up and beyond that I cannot give you really a specific number on whether it be 21% or % or 22%.

Surendra Goyal: Just one last thing from my side may be for Milind. The short term loans and advances number what does it exactly relate to?

Milind Kulkarni: So you are talking of a number on asset side?

Surendra Goyal: The 2600-odd crore number.

Milind Kulkarni: That would include all the normal advances given to the associate. It would include tax payments both on the direct tax service tax front and the normal business advances.

Surendra Goyal: So just to clarify was that same number around 1200-1300 crore last year? Is it the data that I have right?

Milind Kulkarni: Yeah, there has been an increase in terms of tax. As you know the tax that we pay, service tax, is actually refundable because we export our services but the tax refunds have been difficult to come by during the year. So there has been an increase.

Moderator: The next question is from the line of Sandip Shah from CIMB. Please go ahead.

Sandip Shah: Just in terms of Telecom just to understand as there would be a challenge in one of our European clients through lower amortization plus some growth challenges outside the amortization business also. So despite that it looks like the growth has been much bigger at 8.7%. So first want to understand is it the network related deal has commercialized in this quarter which was supposed to come in the first quarter and second do you believe is there any one time kind of a project within the Telecom as a vertical which may not repeat going forward.

Manoj Bhat: Let me get this one bit out of the way and then I will hand it over to Manish. So clearly we mentioned that there are two events in this quarter which are kind of unique so I want to call them out. As you know the Comviva piece of our business is extremely seasonal, Q4 is usually a very strong quarter for Comviva given that their client's budget cycles etc come to an end and most of them come to an end in March. That is one event and the second event is alluded to this last time also in terms of a short term project in BSG which we finished the delivery in this quarter. So that impact has come through and as Milind mentioned I would not necessarily call them one time, I think it is a question of seasonality and potentially project based work. Both put together that will be about between $8 and $10 million is the impact. With that I hand it over to Manish to talk about the broader Telecom market and what we are seeing.

Manish Vyas: You are reading it correct. It is not just the network but as you would not probably know better than everybody else that we have always said our Telecom growth and our strategy and Telecom is broad based. It is built around what we have been calling for several years now. Our investments in the six pillar strategy where we have never done just one thing for our service provider. That is how we are also differentiated heavily from anybody else. So happy to share with you that we have been successful in almost every single vertical within a communication to service provider's business and network continues to give us lot more encouragement as we continue to do deals in that space. So to answer your question it is really broad based.

Sandip Shah: Manish, do you believe that Telecom as a vertical is still likely to outperform entering into FY15?

Manish Vyas: I do not know what is the measure of outperform or perform but I can definitely tell you that we continue to believe we will retain and want to retain our leadership position or rather expand our leadership position in the Telecom vertical. We have expanded addressable market by the success that we have had in the network space.

Sandip Shah: And just follow up on that network, is it the KPM base deal revenue has commercialized in the fourth quarter or will it come in the first quarter and in the opening remarks Vineet had said that we started having some referral accounts. So can you give us color in terms of how many new deal wins on the network side we have now?

Manish Vyas: The Belgium deal have started getting, we have started recognizing the revenue from Quarter 4 towards the latter half of that quarter. So we will start seeing the full realization of that contract quarter 1 and even beyond.

Sandip Shah: And any reference like how I would be able to cross sell this and what is the traction there?

Manish Vyas: Again it is a great question, as you know we have been saying that the reason for doing this business is not just to do larger deals and more deals, it is also to continue to become a very-very unique and differentiated service provider to the Telecom service provider. So you will start seeing more examples of how we will be able to cross sell, up sell and cross pollinate based on this. So we have started taking a lot of initiatives in that space.

Sandip Shah: And just question on the cash flow, this quarter I think the debtor days looks normalized to 96 days so whether there is a further headroom to reduce and despite that the net cash and bank balance has not gone up materially. We do agree there are reasons like the tax refund, just wanted to know whether tax refund is more towards service tax or there is other element to the same? And what is the nature of increase in the CAPEX? Is it facility driven cost or is it more a normalized CAPEX which has increased in this quarter?

Milind Kulkarni: To answer your last question first it is normal expenditure but slight increase because of the facility driven cost. The increase in the tax payment and refund due is both primarily on service tax account but also there have been some income tax refunds which have come in the month of April.

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

Diviya Nagarajan: Two questions – what is the status on the aspiration target of $5 billion that we had by 2015, some color on that and how do you plan to get there? And second question again on margins, I think you have said you would look at growth but assuming that you are seeing an acceleration in revenue momentum and deal flow, it should be then at least in constant currency terms you get stable margins.

C P Gurnani: I think on 5 billion I can only tell you that our team is equally energized and excited about the potential that we have and the reality is that same math tells you that this quarter was $825 million, we have 7 more quarters to reach $1,250 million a quarter to reach that billion run rate and that math also tells you that no matter what we do we will have to go in for an inorganic play. Obviously the teams are constantly evaluating and we are focusing both on organic and inorganic and I can tell you that this mathematical equation on pen and paper is as easy as you would like us to believe and at the same time I mean we do realize that there can be many permutations and combinations and organic and inorganic. We are constantly working on it.

Diviya Nagarajan: Going by your earlier comments on deal flow pickup and pipeline looking good and demand environment looking healthier, would it be fair to assume that if you were able to hold onto your revenue growth momentum then at least in constant currency terms we should be looking at stable margins.

Manoj Bhat: I think there are 2-3 factors on margins and I am not even commenting about currency. I think if you look at the deals and the kind of transition cost they have, I think that is going to be a factor as we forward and clearly I was probably indicating that the focus of the management team is more growth than margin. So obviously we are focused on the bottom line in trying to find out improvement areas. And this is one of the perils of talking about margins. It is not a guidance even to say that margins would be here or not here. I think I was just giving a view of how we look at margins and over a period of time I would agree with you as we have large deals come into play and go into maturity we would have some margins, positive margin levers building into the business**.**

Diviya Nagarajan: So if I have understood it right you are basically saying that kind of deals that you are engaging in right now, the businesses that you are going after, at least in the beginning the transition cost could be higher which is why you are basically sounding as off that you are focusing on growth side now. Is that the correct interpretation?

Manoj Bhat: Yes. That is the problem we would like to have that we have transition cost initially and then we will pull up the margins as we go along.

Moderator: The next question is from the line of Viju George from JP Morgan. Please go ahead.

Viju George: My question relates to the proportion of onsite business that seems to have risen quite noticeably in the last four quarters, in fact your onsite business has I think increased 27%, almost 3 times your offshore business, which will be 9%. So I am just curious to understand that the new changes mixes that are happening that they should be aware of that is causing your onsite centricity to move up.

Manoj Bhat: I think I had probably referred to in the last call also, as we look at some of the engagements which are coming through I think we are now moving into complete end to end deals where we are taking over roles which always have been traditionally onsite, does not mean that they will remain onsite in our model but clearly the duration of time we would need to transition work to our global delivery centers will be that much longer. I also mentioned I think in the last quarter also and I think this is the trend you might continue to see for sometimes is that as we look at these models in fact if you look at it we have added nearshore centers in the US. I think clearly customers are asking us to take on these roles and responsibilities and also asking us to structure our delivery appropriately and then I think that is one of the things we have decided is that if the customer wants it and it makes commercial sense for us, I think that is the way to go. As you see even in spite of all this increase, I think we have been able to hold margins kind of study. So it is not adversely impacting margins at the moment and I would believe that it is a margin beaver if we can successfully move these roles offshore over a period of time.

Moderator: The next question is from the line of Aishwarya from Spark Capital. Please go ahead.

Aishwarya K: Just wanted to get your comments on the sharp decline in repeat business you see and generally we see about 2-3% decline from the beginning of the year to the end of year. This year we are seeing almost a 10% decline. Just wanted to understand is there any pay classification or there has been some of M&A that has been flown in and hence it is accounted as a new business?

Manoj Bhat: I think there are 2-3 reasons which I can think of. One is of course clearly this has been a year where our engine on the Enterprise side in terms of new deals through large wins that started kicking. Second thing is at least especially in this quarter as I said there was a short term project that could have impacted into a certain degree, not by much. The third thing is I think clearly I look at it the other way round that our new business engine is doing better. Now I do not think we wait too much into the metric and this would vary with quarters from a business perspective and from where we are as a company I think we believe that we are in a good stop as far as both existing account growth as well as new business acquisition is concerned.

Aishwarya K: And in terms of the integration of both fix, BASF and even the Mahindra Engineering, what kind of timeline some of this will start affecting in our financials?

Manoj Bhat: The MES would be probably most likely Q2 is what it is looking like. BASF, we are still in the process, again most likely Q2, where we are on both of these.

Moderator: The next question is from the line of Sandeep from Edelweiss. Please go ahead.

Sandeep: Sir a couple of questions, one on the BPO side we are seeing some decline in employee number this quarter. So if can throw some light on that. Also utilization has kind of slightly dipped on a sequential basis in spite of such a good growth, so is there anything to highlight there and again the attrition number is slightly up, so is there any trend? And finally any light on the – although you have given some indication on the improvement and demand environment pipeline but do you see overall IT spend going up significantly this year versus last year?

Manoj Bhat: I think there were quite a few questions, so let me answer one of them and then pass it to Rakesh for the attrition question and the utilization question and then to Sujit for the BPO. From a demand perspective as CP mentioned while overall IT spend growth might not be high, I think clearly there is traction in terms of customers looking at investments in technology to get better speed to market and better kind of optimization. I think that is a key trend we are seeing. And that is a very summary level answer and if you need more details I have Manish and Manoj here with me.

Rakesh Soni: In terms of attrition our current annualized attrition is at about 18.7% and I think this is an all inclusive attrition which includes people I think who have spent short durations with the company. So we are noticing that the attrition rates are more or less stabilized and we expect similar trends to continue going forward.

Sujit Baksi: As we explained last quarter some of the domestic businesses in India which are unprofitable we are waiting to get that business and hence reduction in headcount what you see that has reflected also in increase in profitability overall. And also some of the business of BT going down has been largely compensated for a non-BT business from North America largely. The decline is mostly on the domestic business and the onetime work we did in Africa.

Sandeep: And utilization decline, anything on that?

Manoj Bhat: So the utilization decline is largely because we have had more trainees, excluding trainees utilization is up by a percentage point. So I think one of the things we are changing this time in terms of our recruitment strategy is after a long time we are recruiting off campus and from the campuses and this is really an investment in terms of bringing our overall pyramid in line with what we think it should be. So that is the reason for the utilization decline.

Moderator: The next question is from the line of Pratish Krishnan from Antique Stock Broking. Please go ahead.

Pratish Krishnan: My question is from the TCV that you announced, broadly any color in terms of how much of this is on the Enterprise side and which geographies are you seeing it traction today?

Manoj Bhat: I think the TCV I gave you Pratish is from the press release so we do not split it by Telecom and Enterprise and by verticals. That is just to give you a sense of how we are doing in the quarter in terms of overall booking.

Pratish Krishnan: And for geographies also?

Manoj Bhat: Same thing, I really do not want to get into splitting each of these matrix.

Pratish Krishnan: Secondly on the Enterprise side, I mean you clearly had couple of wins over the last 2 to 3 quarters, so any particular reason as to why Enterprise is flattish this quarter and should we expect some improvement in growth coming through from 1Q onwards.

Manoj Chugh: Actually if you look in terms of our performance and you were to look at it over four quarters you will find that we have announced a number of large deals over the last four quarters including one large deal during the current quarter which is also in our press release. So you will see us continuing to drive momentum. And there will be quarters when large deals will fall in line and in tune with the quarter and then sometimes they kind of spillover and the cycle time certainly tend to be much longer when it comes to the larger deals. On deals of less than $10 million certainly we have seen an improvement in terms of win rates and in terms of cycle times and you have seen a reflection of that in the performance of the Enterprise business over the last four quarters. And again as I said in one of my earlier comments, if you look at our overall Enterprise performance in FY14 it is substantially better than the prior year. We are at 14.4% versus 8% in the prior year.

Pratish Krishnan: And lastly just on this KPN and Vineet spoke in terms of it has been a referral kind of thing today. Are you seeing these clients engaging with you in terms of either in terms of deal pipeline or I mean they are willing to kind of engage with you onto some?

Manish Vyas: I think the answer is yes that while we are still in the process of completing several steps on this, though we have started post transition commercializing this contract but this is clearly something that we will continue to leverage in terms of doing more things in the marketplace. It is a very good customer, it is a very strategic customer for us.

Pratish Krishnan: Were you seeing traction from other clients as well in this particular area of work?

Manish Vyas: I think about a couple of quarters back we had said we will start reaching out to customers. We know who are we going to reach out to. We have identified a very short list of people who we believe will be the right recipient of this service from us. And post this contract we have now started talking to most of them and we are gaining fantastic response and feedback from most of them.

Moderator: The next question is from the line of Kunal from Bank of America Merrill Lynch. Please go ahead.

Kunal: My first question is follow up on attrition. What would be management's comfort range on the attrition metrics and in context of that what would be the early thoughts in terms of wage hikes for this year?

Rakesh Soni: In terms of the attrition I think we are quite comfortable with the kind of attrition though we are really looking at lower head numbers going forward. In terms of the wage hikes what we have done is that we gave the last set of wage hikes effective 1st January and I think what we have done is that going forward in subsequent years all wage hikes will happen effective 1st January so what we have done is that we have changed the cycle. So it is going to be January to December cycles and increments effective January. So the next hikes will happen in January 2015.

Kunal: On the demand side earlier there was a comment saying that the pipelines are up 30-40% on an annual basis. Are the trends very divergent between Telecom and Enterprise?

Manoj Chugh: I know I think we are seeing a consistent growth in pipeline across both the businesses and as we said earlier we are certainly seeing a two-pronged approach here where Telecommunication operators are working more closely with Enterprises. So that is one of the elements driving pipeline and then of course just organically within the Enterprises itself we have seen a consistent growth in terms of pipeline across all our major verticals.

Moderator: The next is from the line of Ravi Menon from Centrum Broking. Please go ahead.

Ravi Menon: The rest of the world business seemed to grow really strongly this quarter and most of this if I am not mistaken came from Telecom. If you could give me some color on which countries are we seeing this and what sort of contracts that would be great?

Manoj Bhat: As I mentioned there is Comviva and there is a one-time thing which we did in Africa. I think that is skewing the number a little bit if you actually normalize so that I think we should be fine. Most of that Comviva's business comes from emerging markets and as I said the other project is in Africa, so that could be contributing to that huge increase in growth.

Ravi Menon: One more follow-up on that. I thought you said that BSG did pretty well but I was not sure if you were referring to the quarter or for the year because if I am not mistaken looking at the BPO segmental breakout and your consolidated revenues and that seems to be fairly flattened down. So were you referring to the full year or the particular quarter?

Manoj Bhat: You are looking at the quarter number or the year number?

Ravi Menon: The quarter number.

Manoj Bhat: So I think we were talking about the broad trend in BPO and when Sujit mentioned we are moving away from India business and focusing on increasing the profitability and some of the growth in the BPO business, Sujit you want to add some color on what is happening in the BPO space over the last 3-4 quarters and particularly last quarter or so.

Sujit Baksi: I think year-on-year it has been at par or better than the industry growth year-on-year. Quarter-on-quarter as I explained we have witnessed some low profitability domestic business and there is also some contraction in the BT business but I think whatever we have lost has been partially compensated for large BPO deals that we are signing in US and also we have some kind of a great growth in Philippines.

Ravi Menon: One more question on SG&A side, right now there has been considerable leverage so as a percentage of revenue is this where you would be comfortable or you think that may be you need some more in sales and marketing investments or may be leverage in G&A either way?

Manoj Bhat: From an overall perspective our SG&A is about ~14.5%. I think between 14.5% and 15% is where probably we see it in the near future given that we have made a lot of investments in trying to build out both the front end and the support organization over a period of time. I mean that is the sense that we have at the moment in terms of where SG&A levels will be.

Moderator: Next question is from the line of Ashwin Mehta from Nomura. Please go ahead.

Ashwin Mehta: Just a question in terms of Retail and Manufacturing which have been highlighted by a plagued by some of your peers and we also saw some declines there. What would you attribute these declines to and when do you see these two verticals starting to normalize?

Manoj Chugh: If you look at our growth numbers both on Manufacturing and on Retail and if you look at year on year growth they have been very substantial. Retail in fact has grown at 22% and certainly you would find continued growth on the Manufacturing side. So I think these two verticals in particular we have certainly done better than our peers from a growth perspective.

Ashwin Mehta: I was coming more from a quarterly perspective. Have there been factors like weather which have impacted your Retail which declined double-digit sequentially and do these factors start to normalize going into the next quarter or the quarter after?

Manoj Chugh: Actually, we did win a few larger deals on the Retail side a few quarters ago so we have seen the impact of revenue of that coming in during the course of the current quarter and therefore you have seen the spike in growth that you have spoken about. We will have to continue to wait and watch and see how this sector plays out but certainly overall from annual perspective and then from most recent quarter perspective the results have been encouraging for us. Manufacturing has traditionally been our strongest vertical from the Enterprise side of the business if you look at it excluding Telecom and our pipeline continues to look good in Manufacturing.

Manoj Bhat: And to specifically answer your question I do not think we have seen the impact of weather or any such things on demand from our what customer said.

Moderator: We will take the last question from the line of Hardik Shah from Birla Sun Life Insurance. Please go ahead.

Hardik Shah: Could you share as in what is the value of the contracts that are due for rebidding early next year for you?

Manoj Bhat: I do not have that number handy and anyway I think I do not think we would share that number also.

Moderator: I now hand the floor back to Mr. Manoj Bhat for closing comments. Thank you and over to you sir.

Manoj Bhat: Thank you all for coming and spending time with us and trying to understand our quarter's numbers. If you have any further queries, Vikas is available to direct your queries to our management team. Thank you all for joining us again.

Moderator: Thank you sir. Ladies & gentlemen on behalf of Tech Mahindra Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines. Thank you.