"Tech Mahindra Limited Q4FY18 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to Tech Mahindra Q4 FY'18 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 '*' followed by 'o' on your touchtone phone. Please note that this conference is being recorded. I am now glad to hand the conference to Mr. Vineet Nayyar – Vice Chairman, Tech Mahindra. Thank you and over to you sir.

Vineet Nayyar: Good Evening, folks, and welcome to Tech Mahindra's Financial Result Performance for the Fourth Quarter and for the Financial Year ending 31st March 2018.

We ended the fiscal year FY'18 with revenue growth of 6% at Rs.30,773 crores or $4,771 million, up 10% and our profit after tax was Rs.3,800 crores, up 35% YoY. Revenue for the fourth quarter was at Rs.8,054 crores, up 3.6% QoQ, profit after tax for the quarter was Rs.1222 crores, up 30% QoQ and 108% YoY, whereas in dollar terms $188 million, up 28% QoQ and 111% YoY. Our cash and cash balances stood at Rs.7,774 crores, $1,193 million in FY'18.

With the healthy cash balance during the year, the board was glad to propose a dividend of Rs.14 per share Vs Rs.9 per share given last year. The total dividend of Rs.14 per share would result in a payout ratio including dividend tax of 43.4% Vs 37% in FY'17.

Our total headcount for FY'18 was close to 112,000. We are now operating at highest utilization level of 84% and have had 3% improvement this year. Our attrition was stable at 18%.

Coming to the broader economy, the economics scenario and the world has strengthened and looks very positive. IMF in its recent 2018 Outlook has projected global economic upswing which will be broader and stronger. Global growth is expected to tick up to 3.9% in calendar year 2018 and 2019 on the back of strong momentum, favorable market sentiments, accommodative financial conditions and domestic and international repercussions of economic and fiscal policies of the United States. Advanced economies are expected to grow faster while aggregate growth in the emerging markets and developing economies is projected to firm up further, with continued strong growth emerging in Asia and Europe and Modest upswing in commodity exporters after three years of weak performance. Risk still exists such as retreat to inward looking policies and geopolitical challenges. Mirroring the positive economy outlook, the global IT spend outlook also is very promising. Gartner expects global spend to grow 6.2% which is the highest annual growth it has forecasted since 2007. Further, it expects IT Services and Communications Services spend to be much better at 7.4% and 4.3% respectively.

Before I conclude, I want to highlight a couple of recognitions: One, Tech Mahindra has been identified as the global leader for its actions and strategies to manage carbon and climate change across the supply chain and has been awarded the supplier engagement leaders board by CDP, the non-profit global environmental disclosure platform. Tech Mahindra happens to be the only Indian company which has got such a recognition.

Two, Tech Mahindra has received 2018 AT&T Supplier Award for its Outstanding Performance and Services to AT&T during the past year across broad section of selection criteria's including suppliers' diversity, creative cost management, team work, customer service, product service, producer service performance and sustainability. The company is committed to driving innovation and the thought leadership across all lines of business.

With this, I will hand over to C.P. to expand on our business performance. C.P.?

C.P. Gurnani: Thank you, Vineet and good evening, good morning, everybody. We all are very pleased with the performance of your company; clearly a 10% growth YoY approximate and margin expansion of 550 basis points is a matter of pride and hard work that the team has put in. If you recall about a year back, I had come to you and both Manoj and I shared on a road show that as an organization our focus is on growth and operating metric, our focus is on building digital tools and platforms so that we build the company for the future; and the since the most important part of our organization is people,so there is also a huge focus on skills and upskilling of the people. I think on all the three levers or three pillars of our strategy we have done well. You know that digital platforms over a period of time we have launched CareXa which is our customer experience management platform, Ritesh Idnani who is our President for the Solutions Group, and Jagdish has spent a lot of time on that, similarly, on RPA, on AI. Our belief was always that it is not only AI outside, it is not only of our tools that we partner with, we work with a lot of partners, but it was always a belief that we need to have our own tools and L. Ravichandran who is our chief operating officer, spent an incredible number of hours and time to not only deploy those tools inside but also look at keeping those tools ready for the market, the market feedback has been very-very strong, through the year you saw that we have created a marketplace for the AI through Acumos again. Manish Vyas who is the President of the Com sector also the Chief Executive for the Network Services business, has taken it as a KRA to build Acumos even further. So overall I can only say is that, the list of number of tools that have got developed, they were all demonstrated to the industry analysts on 10th and 11th of April, Jagdish Mitra and the rest of the management team choreographed the program called TechM Next which is about creating platforms which is all about creating the Future of Enterprise, Future of Network, Future of Telecom and Future of cyber security and how we will work with the ecosystem of new age companies, ecosystem of existing and strong partners like Cisco or an SAP or Oracle or Microsoft and continue to build in partnership an ecosystem which could continue to help us become more integral to our 1,000 customers.

Coming back to this quarter's performance, I think the quarter performance. Vineet hasd already shared with you that as a year FY'18, our Enterprise business grew 19.1%, Manoj Chugh and some of the other leaders have done an incredible job of continuously growing our Enterprise business.

I think overall our Digital business has grown by almost 500 basis points, it used to be 22%, and it is close to 27% now. We also added about 70 active customers in FY'18. We have more or less been very-very ruthless of only one part which is an execution of our strategy on run, change and grow. We have shared the strategy with you in the past. I can only show you the results. This time of the last year, my run business was 60%, my change and grow business was 140%. Same time this year we are now talking 43% of run business and 57%

of change and grow business, it only shows that the strategy of transformation is working. Both Manish and Manoj have shared with you in the past our mantras for success which is 3-4-3 which is very simple but clearly demonstrates what we are doing and what we are not doing because clearly it is a business of not doing was also a focus area this year, as you know that in Coms business, while we have had a flattish growth, I personally think that this growth has to be taken with data point which is Manish closed about 100 million of low yield business or a non-core business. Manish Vyas' that 100 million if it had remained as a kitty, it would have been another 5% growth. So my point is that I am very happy with the performance of the Communications sector. Clearly, the outlier has been the Enterprise business, but overall it has been a great, great, year.

Going ahead, I think TechMNxt is the global program. It is taking into account to continue our focus on IoT and Cloud, continue our focus on Data Sciences, but put in an extraordinary focus on AI, extraordinary focus on Blockchain, extraordinary focus on Cyber Security and the last but not the least the Network of the Future. As you know that we will continue to make investments both internally on adding more products and tools to these competencies and they are being adopted by BPS, they are being adopted by President – Baksi, for some of with AI infuse solutions for Indian defense or AI infuse solutions for the Smart City, but the point is that there is no solution which does not go through a filter of IoT, Cloud or an AI or Blockchain. I think overall the company's focus on digital, company focus on digital and adding value is clearly showing results. TechM Next also means Centers of Excellence. These Centers of Excellence whether they are based in Bangalore, whether they are based in Silicon Valley or they are based in Dallas or they are based in Israel or they are based in Canada, these are the areas where your company has set of Centers of Excellence and we have partnered sometimes with the universities, we have partnered at times with the local entrepreneurial ecosystem, but overall TechM Next is all about creating an ecosystem and giving better solutions and better opportunities for run, change, grow to our clients. I generally would like to say that our outgoing CFO, Milind, because of his superannuation age, will be stepping out and handing over the charge to Manoj Bhat as one of the youngest looking CFOs in the world for a 5 billion company, but Milind has also agreed that he will continue to support your company on various initiatives. So while he would not be signing the balance sheet, but I am very glad to say that Tech Mahindra will continue to leverage on his not only deep experience but also his mentoring of the Manoj Bhat. Why I consider Milind and the finance teams or a leadership team contribution for delivering an excellent performance on the operating metrics, the levers are very simple: One is learning to say, 'No.' #2, lever is that if there is an AI inside or an AI inside we will look at the tools, automation and deep machine learning internally as well as externally. #3 is better business mix, better yield management and finance actually becoming more involved in the business instead of looking at only the accounting side or the taxation side or the treasury management side. I think Milind and his team have done an incredible job. On behalf of everybody, I do want to thank Milind for his notable achievements and notable contributions to Tech Mahindra. So while now I welcome Manoj Bhat in his new role and Milind you may not be signing the balance sheets but you clearly have one duty to do is to explain this year's numbers to the analysts.

Milind Kulkarni: Thank you, C.P., and good evening to everyone. Let me take you through the financial highlights for the quarter and for the year ended March 2018. I am happy to state that our upward trajectory continued for the fourth quarter in the row. Revenue for the quarter was about $1,244 million Vs $1,209 million, growth of

2.9% QoQ and 10% YoY. There was a cross-currency tailwind of about 120 basis points QoQ and 380 basis points YoY. The Q4 revenue growth in constant currency term was 1.7% QoQ. The EBITDA for the quarter was $270 million which is Rs.1,412 crores Vs $197 million in Q3. EBITDA margin for the quarter was 17.5% which is the margin expansion of 120 basis points QoQ. The expansion was due to improvement in utilization, seasonal tailwind from mobility business and improved business mix and a favorable currency, almost all contributing more or less equally. The other income for the quarter was about $69.7 million against $35 million in Q3. This included one-time gain on sale of our land and building in Bangalore which was about $14 million and higher FOREX gain of about $27 million as against $16 million in the previous quarter. Interest income rose from $10 million to about $16 million during this quarter. Depreciation and amortization for the quarter was about 46 million as against 43 million in the previous quarter. The depreciation in higher mainly because of the software purchases for internal use which we depreciate fully the year of purchase. Net profit after tax was about $188 million against $147 million in Q3. In INR terms, the PAT was Rs.1,222 crores Vs Rs.943 crores in Q3.

If I come back to the statistics for the full year, revenue was 4,771 million Vs 4,351 million, up about 9.6%. There was a cross-currency benefit of about 180 basis points due to depreciation of USD against major currency and the constant currency growth was about 7.8%. Our Enterprise business grew as C.P. mentioned 19% YoY and Communications business was flattish. Full year EBITDA margin improved by 90 basis points from 14.4% in FY'17 to 15.3% in FY'18. This is despite 3% rupee appreciation. Margin impact of which is about 50-60 basis points. Also, we absorbed the wage hike effective June 2017 for people about zero to six years experienced bracket.

Now, the tailwinds came from improvement in utilization, improvement in productivity, then improvement in performance of portfolio companies and an improved business mix, all three factors almost contribute equally.

Our cash flow generations for the quarter as well as for the year continues to be healthy; cash flow from operations for Q4 was about 164 million, about 76% of EBITDA Vs 151 million in Q3, almost 76% EBITDA again. The free cash flow for full year was US$580 million, about 79.5% of EBITDA Vs 542 million which was about 87% of EBITDA in FY'17. We generated free cash of about 429 million in FY'18 Vs 397 million in FY'17 despite some outflow of about 53 million on IP deal during the year. Cash and cash equivalents were $1,193 million as against $950 million in December '17. Net of borrowing of about $368 million and net cash was $825 million. Our hedging strategy which we have borrowed consistently continue to serve us well. As on March end, we have hedges of about $598 million at Rs.71, then sterling hedges about 229 million at Rs.94.4 and euro hedges of 244 million at Rs.85.4. Now, this is much higher than the spot rates on those days or even spot rate as on today. MTM gains on outstanding cover as on March were US$26 million and half of it based on cash accounting treatment were credited to P&L and half of it were carried with the balance sheet. Now the equivalent number of last quarter which was carried to balance sheet was 52 million and this is because of the depreciation of other currencies appreciation against USD. Tax rate for the quarter was 18.6% and this was lower than the normal tax rate and this is primarily due to tax benefit which resulted from NOL of one of our US subsidiary. As you know, the last quarter also we had a lower tax rate because of some of the R&D

benefits in the US and some other developments. So the overall tax rate for the year was about 22.4% as against 26% last year. But the normalized tax rate is going to be somewhere in the region of about 25%. PAT for the full year was 588 million against 419.5 million which is up about 40%.

If I were to conclude the year, we have ended FY'18 on a happy note, having improved EBITDA margin through the year and having grown the EBITDA business at 19%. The Communications business though look flattish but if we exclude some of the growth outside network, some of the business which we gave up during the year again has been quite satisfactory. Margins have improved over the year but we still have margin levers like automation, improvement in performance in our portfolio companies and maybe right shoring. But the improvement going forward is likely to be gradual and not as what you have seen in the last year. As Vineet and C.P. mentioned, because of the improved performance, the board has recommended increase in dividend to Rs.14 per share as against Rs.9 per share. This translate to dividend payout of about 43% of profit versus 37% last year.

With these remarks, I will open the floor for "Questions." Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: My first question is on the deal wins. The TCV there seems to be stagnant at about $1.2 billion, $1.3 billion for three years now. So, how should we look at it – is it because the pipeline has been stable or is it that your win rates have come off a bit as you may have become more selective in picking up the deals to ensure that the margins are not impacted?

Manoj Chugh: I think obviously we are in a very competitive marketplace and our goal is to find ways in which we can add value particularly through injection of digital and what we call in TechM way to technologies. I think as gradually we increase proportion of digital, things will hopefully look better going forward in the future.

Manish Vyas: Yes, I would just add, Pankaj, thank you for that question, I would just say I think you heard C.P. earlier saying that we have also begun to learn to say, 'no', so we have obviously become more selective from a finance standpoint, and at the same time like Manoj is saying that the digital or the ways to the next-generation technology also demand that some of the opportunities sizes that we are winning not from our perspective but even from a customer standpoint are going to be relatively smaller to start with. But that said, we are quite comfortable and confident about the overall deal flow, the overall funnel and the overall activity in the marketplace with the number of accounts that we are engaged in, we do not see that as a point of concern.

Pankaj Kapoor: Last year there were some pricing reset that we had in a few of our large telecom account, so just what is curious to know how have been the negotiations this year, I mean is there something that you are hearing from the clients or there is a push back on the pricing is normal this time?

Manish Vyas: I think there is always a competitive pressure, every single day it only becomes more intense, Pankaj, but the one-off big restructuring that happened is not something that we are currently engaged in and I cannot predict what may happen in the next several quarters, but clearly that is not something that we are dealing with at this point in time.

Moderator: I should also ask the customary question on 5G outlook, when do you see signs of spend picking up there, any update?

Manish Vyas: I suspect I may also have to give you a customary answer on 5G that it clearly continues to remain by far the most important initiative not just for the telecom industry, but for all practical purposes across all industries are watching what exactly will be the 5G rollout timeline, and the industry remains very busy right from defining the standards to finalizing the technology stack both on the radio as well as on the core side and the other interfacing technology. You may have read that there are couple of (Inaudible) we have announced more than one trial, so it is still very, very difficult like I have said earlier to exactly predict whether it is 2019 spend or maybe later, but the activity in the industry is extremely intense as we speak, there is not a single major operator that is not busy right now trying to finalize their roadmap.

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

Sandeep Agarwal: I have two questions and Manoj can also chip in if he wants, but more to CP, one on the Enterprise side, we are seeing quite a very robust growth, so I would like to understand what is happening there because this data is totally different than what we are seeing in the industry, obviously industry is also throwing great signs of recovery and very clear signs of recovery, but our growth has been quite robust there, so what is helping us, is it our different set of clients which we are targeting in the sense that we are targeting mediocre size of client which probably the very large players are not into it or we are getting a geographic advantage on that side? Secondly, telecom I agree that there have been some businesses which we have said no and that would have impacted our growth, but still the numbers are not looking great, so is it you know the lag effect of turnaround which may be playing out right now or it is very unclear whether there is a turnaround, so any sense on that? Thanks.

C.P. Gurnani: Sandeep, very, very critical questions, so let us go back into the Enterprise business, I mean let us compliment Manoj, Ritesh, and Manish and Sujit Baksi who are basically leading the teams from the front. There is no Enterprise business without communication business because the world is so connected that frankly these boundaries that we have created are manmade. Today, a health exchange or a talent exchange or an IOT platform or factory of the future, all of them the bedrock is connectivity, the bedrock is communication. The second part is I want to compliment Ravi and his team because the company has invested a lot in platforms, the company has invested a lot on the tools and the company continues to modernize, so as I spoke to you Sandeep a little while ago when I said 10th and 11th of April Jagdish Mitra and his team had created a two-day conference which talked about Tech and Next. In Tech and Next, we should Enterprise the future, network of future, and we also demonstrated how all of this is being woven together by us marrying the ecosystem. Key customer is the focus and we come in through a network or an ecosystem effect of the new age companies, you guys may call it start-ups or the companies which are mature whether they are called HP or whether they are called Cisco or Microsoft or Oracle or an SAP, we work with all of them to create a solution. Number third is that our acquisition strategy has become a lot more digital focused, whether it was Pininfarina, whether it was BIO, whether it was HCI, I mean HCI is all about EMR, BIO is all about customer experience management, Pininfarina is about digital engineering, so I think we have become a lot better in that area, and last but not the least, I mean we have some incredible people who are able to deliver incredible results and it is true for telecom, it is true for Enterprise. Telecom, I do not think we are doing badly. It is just that we have re-architected our strategy and I think it is coming into play. There may be one or two quarters of lag, but I am more confident that this company is made by communications and telecom and they will lead the business.

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

Gaurav Rateria: Two questions from my side, firstly on the communication 5G cycle, do you look at this cycle to be very similar to what it was in the past or do you think the nature of the spends will be slightly different, what are the nuances to that if you can help us understand? Second question if you can throw some light with respect to performance on your acquired companies in the last year, have they been tracking as per your expectations or even better than that? Thank you.

C.P. Gurnani: Gaurav, I do not know how much detail I need to go into on 5G, so I can only give you a very broad-brush answer and I promise you I will give you a lot more details when I meet you guys in August. The 5G is a technology which will not have a uniform adoption. You have seen the technology even 4G or LTE being adopted very differently by two Indian leading operators, one is Airtel and one is Reliance Jio, so 5G as a matter of fact is a lot more open, lot more amenable to software-defined networks and we will see different adoptions as we go along. Your company has invested in an ecosystem, many of these have already been made public, but you will hear more about it in the next two quarters and I can only say is that while the big players, the big OEMs will have an advantage but company like Tech Mahindra will also get a slice of that market and that market whenever it matures will be huge. The world I live in Gaurav, the day I acquire the company, three months later it becomes part of the organic, so I have never been able to say though I know financially Milind is more focused on tracking individual performances, but from my perspective they are all Tech Mahindra after we do the acquisition and one or two quarters later we have the integration plan, the transformation plan, the growth plan and the synergy plan in place.

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

Ashwin Mehta: I had one question in terms of the others segment that has grown pretty well for us, how sustainable is this growth and what is the driver for this growth, and just a follow in terms of BFSI that is one segment which had been growing pretty well in the past for us, but now seems to be decelerating, it is down to 1% YOY growth, so what exactly is happening there and how do things look going forward?

Manoj Bhat: First, let me pick the others question. From a perspective of others segment, I think clearly what we club under there are largely some others used to be small, but they are becoming bigger, for example, right now if I look at healthcare, there is a large implementation cycle and the kind of go-live cycle which we are tapping into and clearly as with most of these cycles, there is always going to be a period of time where the growth will come and then there will be a period of volatility till the next kind of implementation starts, so that is driving growth and that has been driving growth, so there was some growth in Q3 and good growth in Q4, and I do expect that there will be continuous growth in Q1 also, but beyond that I think there is something which this is an implementation cycle business, so that is part number one of the question, and we believe that these are based on various clients going through their project life-cycle and we are were assisting them in various parts of that life-cycle.

Manoj Chugh: On BFSI one of the key bits that we have placed on is around wealth and core banking transformation, and when the transformation these come in there is a point of hectic activity which goes on for couple of quarters and then we get on to what we call the BAU stage, so you will find that as we win these deals, there will be some quarters where we go through the aggressive transformation piece and then we move to BAU. I think that is the nature of the kind of business that we have decided to focus on. We believe it is the right thing for us to do, so you will see longer terms. If you take multi-quarter approach, we will see our business continue to do well, but yes you would see certain quarters to be softer than the others, but we want to stay with the strategy that we are in, I think we have a sweet spot, we are clearly differentiated and we are winning.

Ashwin Mehta: Thank you and just one question on margins, you would see wage hikes, visa, and Comviva seasonality in 1Q, what is the impact that you see of that going into the next quarter, ex of any currency impacts?

Manoj Bhat: Clearly, I think all three are coming in one quarter, so there will be an effort to mitigate some of it, but I think we have always seen that Q1 definitely there is a margin impact because of all of these coming together in the same quarter and that is what I expect to happen even in this case, and beyond that I think whether currency mitigates it to a certain extent, but as of now it looks like if I consider the magnitude of each of these, there is a significant impact going into Q1 which we know today.

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

Ashish Chopra: My first question was actually on the rationalization of onsite-offshore that you mentioned as one of the levers, so just wanted to understand in terms of the scope since for us the on-site mix is relatively higher than peers because of acquisitions and other factors, so what could be the kind of scope and what kind of a litigant or tailwind to the margins could that be?

Manoj Bhat: Clearly, the way to look at it, I will split it into two parts, so there is a portion of the business around digital which is more onsite in nature. There are some of our acquisitions which also contribute to a higher onsite percentage. Over a period of time, I think what we have seen is that once we start the digital engagement probably one or two quarters down the line, we start seeing some of the movement offshore, but on the other side on the portfolio companies I think some of this nature of work might remain offshore for a considerably long period of time. Let me give an example, even if I look at even Pininfarina after some almost one-and-a-half to two years, we have now a PF India with our 60 people, so it takes that time to actually start integrating and pulling together the offshore piece of it, so my sense is while it is a margin lever and it will play through, but it will probably take a few quarters for that to kick in. To me actually the more immediate margin levers will continue to be, one is if I look at the whole portfolio company journey, I think we had a good start, we have taken certain corrective measures, but I do not think yet the synergy benefit and the working together with an integrated Tech Mahindra and the related benefits on margins have flown through, so that is going to be a key lever going forward. Second thing is I think and I mentioned this in the past that with every going quarter I think our investments in introducing our automation platform in customer projects is something which continues to increase and that is something which we expect to flow through during the rest few quarters, and lastly, I think we have mentioned this in the past, we continue to look at our workforce profile and pyramid structure, that is something which we would expect to start kicking in also during the next three quarters, so to me that is the journey, but as Milind mentioned we have had a very good four quarters in terms of margin improvements and Q1 as I a mentioned is going to be there are headwinds to the margin, but then I have also mentioned that it is an eight-quarter journey, but the increase might be more gradual is what I feel.

Ashish Chopra: Secondly, on the headcount we have seen that the decline has also been in the sales and support, so just wanted to understand if there has been any change in the go-to market approach that has led to a sort of rationalization or could it be the redundancies created from acquisitions or if there has been any reclassification, some color on that would be helpful?

Manoj Bhat: I do not think there is any reclassification which I know of, so to me the big thing is that as we go through some of these things, I think we do periodic look at what is the kind of support investment required for the business and how much can we rationalize over a period of time and that is the way to look at it, I do not think you should look at it beyond that, so something which I think you should expect to see on a periodic basis, we will continue to do across various parts of our business.

Ashish Chopra: Lastly from my side, the DSOs are close to 102 days, do you see a scope for that to improve going forward because it has been in that range for a while now?

Manoj Bhat: My immediate answer would be, yes, there is a lot of focus to improve that, but I am also very conscious that what we are seeing across our customers base is it demands from customers to actually use payment terms as part of the negotiation process and that is the counter kind of balance to all our internal efforts. My expectation, our goal would be to improve this DSO days over the next four quarters to reasonable number of sub-100 is what I would say.

Moderator: Thank you. The next question is from the line of Shashi Bhushan from Axis Capital. Please go ahead.

Shashi Bhushan: On 5G you talked about early signs of increased activity among your clients, so are we part of this early discussions which will give us some visibility either in latter half of FY19 or early FY20 and how significant it would be in terms of the impact on our revenue trajectory. Can we expect our revenue trajectory again to go back in communication vertical where we were say a few years ago.

Manoj Bhat: I will request Manish to pick this question up.

Manish Vyas: Sure, absolutely. So I think in answer to the second question is a bit more difficult to answer and predict at this point in time. Except that, I would want to say that yes, there clearly will be a positive impact to how our business will shape up as a company. To your earlier question whether in the initial activity that is going on across the world on 5G evaluation and trial, yes, the answer is yes. We are engaged in several instances. Like CP mentioned that 5G technology rollouts are not going to happen exactly how the previous generation happened. Not only are they going to be very nonuniform, 5G also has a very different connotation in different parts of the industry. There is an impact on the access network, there is an impact on the core of the network, but there is also an impact on the application and the underlying system that will support and will have to be integrated for the 5G business. So we are very busy in different areas and which is the best part and the beauty of the investments that we have made over the years that right from the network of the future to the digitization and IoT and also the customer experience transformation we are pretty much engaged at all those core different levels. And which is where the opportunities will come because with 5G what will also change is the service line for the service providers and what will also change is the business models. So that is where your company is going to be finding itself in a very exciting solution. How exactly will that pan out, I do believe I think these are early days at this point in time, but come next couple of quarters, we definitely will be able to discuss in more details with you.

Shashi Bhushan: So two parts to it. One, you are talking about integrating lots of other services and the newer things into the system which does not exist. So obviously it requires lots of new spend. Second, we expanded our service portfolio also which caters end to end now right from the network design to OSS, BSS and then VAS as well. So we are now targeting much bigger pie is my understanding right?

Manish Vyas: If you go back couple of years ago, we have always said that we have invested in 6 pillars. This typically means that we are playing in multiple different areas of ecosystem.

Shashi Bhushan: Manoj, on wage cycle is it going to be spread out in two quarters or it is just going to be one quarter wage hike?

Manoj Bhat: I think we are going to distribute it, so it will be in Q1 as well as in Q2 that is what the plan is.

Shashi Bhushan: Now if currency stays at the current level say almost like 5% depreciated from where we reported, would it mitigate the margin impact because of Comviva Visa and wage hike and also the trajectory of improving margin although gradual would continue through FY19 if my understanding is right is what you said?

Manoj Bhat: So I think if the rupee stays here, potentially on a full year basis it could, so that is because the math is pretty clear 5% is roughly 1% give or take. So that will definitely help us in mitigating because Comviva is really for us. What is happening is it is all coming together in Q1 and my commentary was very specific to Q1 that we are feeling the margin headwinds in terms of all three are coming together.

Moderator: Thank you. The next question is from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: My question is related to the opening remarks by Vineet where you eluded that the new forecast by Gartner across our focus vertical, have we seen that kind of fillip in our own client conversation, deal market or in general environment that we deal in?

Manoj Bhat: What I will do is I will give it back to Manoj Chugh to answer what are the sorts of customer discussions and engagements we are having in terms of our overall funnel and whatever we are dealing with in terms of our clients' engagements. Manoj, you want to pick that up the connection between what Gartner's forecast and how does it translate into our customers?

Manoj Chugh: Yes. So Rahul, what we have done is across each of our verticals, we have designed our overall strategy around "3-4-3," 3 trends, 4 bets, big bets that we are making in that specific vertical or in some cases some vertical and then how is that going to help our customers run, change and grow. As we look at the four bets, we are finding that they are resonating very well with the market. We have got validations done of the bets that we have chosen with reputed analysts in the market place, but we did not want to be blind-sided. What we are doing at this point in time is relooking at our overall solution set which feeds into the big bets and working to make them more robust, in some cases co-creating solutions with our customers and taking them to market. So I think we are headed in the right direction. The best that we have chosen or validated are solution sets are coming together and therefore the conversations that we are having with our customers are related to the heart of where their business is as which is in terms of helping them transform. Obviously, the results will come in over a period of time. This is a journey and we are very aware of that.

Rahul Jain: So one just incremental thing is that so obviously what we said we have been working on this for some time and these things are evolving, but I am saying is there a sudden kind of hint where we see renewed optimism in terms of the way people approach?

Manoj Chugh: Yes. So let me take an example Rahul because I think an example is the best way to explain. So within manufacturing, we have identified a Factory 4.0 which is the coming of IT and OT together has an important area where many organizations across vertical segments are focused on in making investments. There is a significant impact in terms of reduction of COMs and obviously in terms of the ability to do mass customization when one gets Factory 4.0 right. So we have identified that as a big threat. We have created an ecosystem. If we spoke about that, across sensors, network, applications, manufacturing execution systems, TRP and so on and that is what we are taking to market and we are seeing very good results. Obviously, we have to go customer by customer, factory by factory and start implementing and educating. The second example would be servicification of products and again there we bring in sensors, networks, applications, analytics and so on to be able to take a product and build a service around that and in fact sell that as a service. So physical becoming service. So there are many examples like this which we are taking to market. They are very relevant, they are very current. They hit at the gut of the business of our customers, but I think it is a question of our coverage taking it to market and executing one by one by one. So I think we got the recipe right.

Rahul Jain: And from the hiring perspective, what are the plans as we have seen significant rationalization in the headcount this year and also from an employee cost base perspective, what will be the split in terms of the wage bill that will get hike in Q1 and Q2 respectively?

Manoj Bhat: On hiring, the way we have changed that approach is that I think we are looking at continued just in time model and as we eluded to before even in our second next program, I think we are looking to encourage an ecosystem of various partners who can actually provide business where we need them, but I think you should expect that the endeavor would be to model our resourcing around broadening just in time model. We will have a few freshers joining in quarter 1 and quarter 2 which is the more of the long-term plan to actually manage the overall pyramid. So that will be one change you will see. I do not think there have been too many campus recruits in the last two quarters. So that is one change. I think in terms of the wage hike, I think there will be half and half kind of impact from a dollar perspective and roughly maybe 60% of the people getting it in quarter 1 and the balance in quarter 2. That is what it looks like.

Rahul Jain: And just lastly if you could on the effective tax rate that we see in FY19 and 20?

Manoj Bhat: I think the effective taxes will be about 25% give and take. Of course, this year has been much lower because there have been R&D tax credits we have got in various jurisdictions. I think in one of our subsidiaries in the US, we did a revised estimation of net operating loss and that quarter benefit. So there are many pulls and pressures in the tax rate, but overall I think it should be about 24.5% to 25% is what I would assume this year.

Moderator: Thank you very much. Due to time constraints, we will take the last question from the line of Vibor Singhal from PhillipCapital. Please go ahead.

Vibor Singhal: Manoj, my question was majorly on the employee pyramid and the utilization. So I think for the past 3 quarters we have seen that our utilization including and excluding trainees has been the same. So virtually signaling that there are literally no trainees in the system. So I just wanted to dwell upon this that is this the new paradigm of software development that we are looking at that maybe aided by Agile or DevOps, we do not need that many trainees in the system because the way we have seen traditional companies for work is that we need a bench strength to be able to ramp up whenever a project comes in and people to be trained in those kind of development environment. So do you foresee this continuing or maybe just a small gap between the two utilizations or do you see as a result of just as an outcome of we not hiring too many figures that you mentioned over the past 2-3 quarters and this will probably correct over a course of time?

Manoj Bhat: So at least my view is that the significant gap which we used to see in the past that probably would not be there. I think we are looking at an intake every quarter and that is as I mentioned quarter 1 and quarter 2, we will end up trainees into the workforce. Now coming to your other question is the delivery model fundamentally changing with Agile? I think that has been true for some time and I think what we are trying to do whether with our platforms or whether with our new age delivery model, we are trying to actually being the same as in the way we deliver and that would mean actually that we would think of a 5-year experience resource in a very different manner including share capabilities that is something which will evolve over a period of time. But short answer is I do not expect a large gap between utilization with and without trainees during the course of the year, although we will end up trainees into in quarter 1 and quarter 2.

Vibor Singhal: And if I could just extend that question, do you think that would stand true for only for TechM or do you think it could also be the industry phenomenon?

Manoj Bhat: I think different companies follow different models and based on their own delivery methodology, so I would restrict myself to Tech M at this point.

Vibor Singhal: Just quickly my last question if I can squeeze in on the top 5 and top 10 accounts. So I think it has been sometime that we have seen them decelerating and not really contributing to the growth and growth is primarily being driven by the top 20 accounts and those non top 10 accounts. Do you see a change in that scenario over the next 2-3 quarters? I know the top accounts are probably be impacted by the telecom growth that we have anyways not been that great, but any commentary on that would be helpful.

Manoj Bhat: I would expect that the top 5, top 10 will also start growing into this year. So if I take the full year basis, I think we would start seeing growth. So I think that is the trend I would see.

Moderator: Thank you very much. Ladies and gentlemen due to time constraints that was the last question. I now hand the conference over to Mr. Manoj Bhat for closing comments.

Manoj Bhat: Thank you all for joining and I know we had closed the call due to time constraints, but please feel free to reach out to Vikas and IR team for any additional queries and we will try to answer them offline. Thank you so much for joining.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Tech Mahindra, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.

Note: The above transcript has been edited for better readability