

“Tech Mahindra Limited Q1FY21 Earnings Conference Call”

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**MANAGEMENT:**      **MR. CP GURNANI** – MD & CEO, TECH MAHINDRA LIMITED  
**MR. L. RAVICHANDRAN** – CHIEF OPERATING OFFICER  
**MR. MANOJ BHAT** – CHIEF FINANCIAL OFFICER  
**MR. HARSHVENDRA SOIN** – CHIEF PEOPLE OFFICER  
**MR. MANISH VYAS** – PRESIDENT (COMMUNICATIONS BUSINESS, MEDIA & ENTERTAINMENT BUSINESS), AND CEO, NETWORK SERVICES  
**MR. JAGDISH MITRA** – PRESIDENT (ENTERPRISE BUSINESS)  
**MR. RITESH IDNANI** – PRESIDENT (BUSINESS PROCESS SERVICES)  
**MR. VIVEK AGARWAL** – GLOBAL HEAD FOR ENTERPRISE VERTICALS SOLUTIONS AND PORTFOLIO COMPANIES

**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY'21 Earnings Conference Call of Tech Mahindra Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. CP Gurnani – M.D. and CEO for Tech Mahindra. Thank you. And over to you, sir.

**CP Gurnani:** Good evening, good morning and welcome to Tech Mahindra Q1'21 Results. Thank you all for joining us today. I know these are unprecedented times and in a lot of ways, people all over world are still trying to balance lives with livelihoods. I hope all of you are staying safe and healthy.

Quite a bit has changed over the last four months. We have directly seen the decline in the GDP growth. We have seen various intensities of pandemic, but the positive side is that this balancing between life and livelihood means businesses are also getting back on track. In IT sector, some of us have now adjusted to the new normal of remote working. On the other end, we have also taken some very proactive steps to make our workplace safe place to work. We introduced an integrated platform called "MHealth", which is really a blood test at the time of people coming in which is basically to making sure that the antibodies are present and we are ensuring that our employees have a good working environment at home. They are open to having any kind of counseling, whether it is related to data, related to work, related to personal, related to mental wellbeing and we have seen that the employees continue to remain engaged with your company. Gratifying the load during the quarter was that your company in India was adjudged as "The best Great Place to work in Mega Employer Category", Mega Employer means more than 50,000 employees. We have also been rated the best in career management. Overall, with the top-100 companies we were rated at 21<sup>st</sup>. I know there is still a lot of headroom for us to do better. But considering that 95% of us who are now working from home, only 5% to 6% against a very, very well designed safe place to work, are working from the offices.

The senior management of Tech Mahindra when they sat together, and when we looked at the reports from various analysts around the world, we looked at the report from various big consulting companies, we had assumed relatively I would say a tougher quarter. Not that this quarter has been easy, but last quarter when we got together, we had set ourselves three priorities – #1 was cash flow management. Your company has reported free cash flow of \$ 317 million which is the highest and I am glad that we focused on free cash flows.

#2 was we had said that we will start looking at each line item, each penny that we are spending, we use the team of data analysts, we used a lot of decision-making tools under the chief transformation office, but 100 data scientists work with our CTO, Simmi. And what we are seeing is that now she has an aggressive plan for the rest of the year. Those hundred data scientists have more or less assured us through the CTO office that our margins will continue to improve because now we are literally measuring in micro-millimeter. This is the first time that chief transformational office is really using industrial management processes to work on our

profit margin. Profit margins is a function not only of eliminating necessary costs, but it is also an element of redesigning some of the processes, redesigning some of the structures that we had, it also means that we will bring in more advanced tools to deliver. I think all of these actions have been put in place. And I am hopeful that our profit margins will continue to improve over the next few quarters.

#3 is really about the growth. We have analyzed growth to look at customer segments, whether they are in telecom, media, entertainment or in manufacturing, if in manufacturing, whether they are in aerospace or automobiles. So, we have done that analytic and we have done a fair amount of modeling on where the growth will come from. We have prioritized on it. Some of our sectors which had not done too well in the previous quarter, for example, BPS and I am sure when Ritesh talks to all of you, he will tell you that BPS has come back to almost normal. Similarly network services, while the network usage has increased, data has increased, but network services business did not take off in the previous quarter. We think there will be a recovery. The calculated guess is it will be a relatively not so faster recovery, whereas in BPS we are seeing a fast recovery, but the company will continue to pivot itself on 5G, company has done extremely well on human experience management, customer experience management and Ritesh will again cover. We have successfully regrouped and reimagined all our customer processes and we also looked at branding, we looked at digital marketing, we looked at the digital transformation, and all of them are being re-grouped together. So the company is making some structural changes, but that is an area of focus.

The third area of focus for us was the way we are running our operating companies particularly the companies that we had bought. There is a plan led by our HR Head, Harsh and CFO, Manoj, we are putting it together to integrate the back offices to successfully build a shared services center for all these operating units. So, I would say is that cash flow management, cost management, growth prioritization, and last but not the least, integrating all the operating companies both on the front office side and on the back office side, definitive action plan has been done. I mean, I would like to claim that the worst is probably behind us, and it is our endeavor to transform to come out leaner, stronger, and build solutions around some of the spend areas. I actually would like to congratulate on your behalf the management team because they have shown agility, they have regrouped themselves and in a lot of ways taken some of the lessons from the previous playbooks that we had faced during the 2009 crisis and refined those playbooks and together all of us believe that we are making Tech Mahindra stronger company.

To take us through the last quarter's commentary, I am going to invite Manoj Bhat.

**Manoj Bhat:**

Thank you, CP. All of you have seen the numbers. So, I think I will just add a few salient points before opening it up for questions. So, if you look at the numbers, of course, revenues declined by about 6.7% to 1,207.5 million. If I look at the drop from another perspective, about 7% of the drop was related to COVID. And when we looked at it, about one-fourth was coming from the supply side and about three-fourth was coming from the demand side. We also had obviously incremental revenues coming in from some of the new acquisitions which we integrated during the quarter, which is offset by the currency headwind and our VAPs and Mobility business as a seasonal weakness. So those two were kind of offsetting each other.

Coming to the EBIT margins, CP did outline some of the measures we took in terms of looking at costs, looking at optimization, looking at cost avoidance in terms of what our discretionary spends and so on and so forth. So, all of these measures helped us improve margin by 200 bps during the quarter which offset the COVID impact on the margin. We also had in Q4 a one-time on CSR spend and provisioning which was about 120 bps. And that was not there this quarter. So that did actually help in terms of the margins as well as the currency was the positive. Offsetting that was the visa cost and seasonality of the Comviva business. So net-net, I think, if I look at all of these measures these have led to a slight improvement in margins in an exceptionally tough quarter, both from an environment perspective, also from a seasonal perspective. If you look at all the Q1s, in the past we have had this challenge around the seasonality of the Mobility business and the H1b visa cost.

Coming to other income, it was up to about \$ 11 million on forex gain, which is an improved number from the previous quarter. Other income was also about \$ 20-odd million of one-time in terms of two things -- One is we got a tax refund of about \$ 60-odd million which had an interest component which we accounted in other income and also some earn-out payments from some of the subsidiaries we had sold in Comviva some time back. So, those are also accounted in here.

Coming to the cash flow, \$317 million is an all-time high. Within that is embedded, \$60 million benefit coming from the tax refunds which is not usual. Also, we had some customers who actually helped us during this time in terms of actually paying in advance of the due dates. So that has also helped. But even if I exclude those, right, I think from overall cash flow perspective, it will still be the highest quarter we would have ever had. And this has led us to reduce some debt; we have reduced about 50 million of debt during the quarter. Cash and cash equivalents have gone up by almost 214 million and the hedge book we continue to follow our policy, it is about 2.3 billion. What I wanted to do is throw it open. I know you guys have a lot of questions around the business and some of the numbers we will try to address them together as a team. Thank you.

**Moderator:** Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

**Sandip Agarwal:** I have two questions: One on the strategic side and second on the demand side a bit. So, first of all, on the strategic side, CP, if you can actually give some color on how do you see the medium to long-term growth on the enterprise side primarily in the past acceleration which has happened on the technology adoption side? And secondly, what is your stance on the 5G CAPEX, has it been pushed out, do you see that there is some opportunity permanently gone or you think that it is just a postponement and it is not loss at all?

**CP Gurnani:** Sandip, let me first take the 5G because it has got an implication on enterprise also. I divide 5G into three groups -- 5G for the communications service provider, 5G for enterprise and 5G for ecosystem. 5G for ecosystem means what are the business opportunities for designing a new handset, designing a new app for the gain, because now that the bandwidth is available, you have a lot more to play around with. I think that market is already on. We are doing at least three, four new handsets for some of the very-very well known brands where we are doing functional design, we are doing the electronic design, and for one-odd person we

are also even doing the styling. So that business has started, applications part also has started. 5G for enterprise, the funnel buildup is very strong but I do not see the season happening in a hurry. Main reason being is that first applications were coming in from IoT, manufacturing 4.0 and those applications, currently the manufacturing sector is redefining its supply chain. And the second set of requirement was coming from the other service sectors and they have in a hurry decided to launch Health Next or Education Next. So, at this stage, they are not going to immediately redesign the application for 5G, but 5G in enterprise is a bigger requirement than anywhere else, because the consumer is actually very happy as long as he gets good network speed and good voice quality. The communication side, I think it is more of a setback of five months. For certain cases, seven months where A) the geopolitical war, if you think A can be used or not used and number two is a spectrum which had to be auctioned and given. But if you were to ask me purely from a business point of view, I think it is a delay, but the business is there and we are going to continue to work on three different vectors for 5G. And we are happy that the Rakuten rollout has happened. You did see one of the not our announcement, but BSNL looking at atma nirbhar which means something which is locally designed and manufactured 5G equipment and services. The only reason I am pointing it out to you is that in today's environment, if BSNL can look at a local stack, many-many countries are now open to looking at the software-defined network or the virtual stack that we would specialize in. Sorry for a long answer, Sandip. The second step you said on enterprise. I have always told you that my best headrooms are actually in enterprise. Our BFSI has done reasonably good, our retail online business has done reasonably good and overall I continue to see high growth in HLS provider space, you have seen one of the big deals that we announced in HLS. And one of my leaders, Ricky Caplin and Vivek Agarwal are doing a very good job there. Hi Tech includes Google, Microsoft, Oracle, and some of the unicorns which are hi tech, I mean, is doing extremely well. So, I think as a strategy, we will repriced and continue to be nimble and agile, we will continue to prioritize enterprise sectors where there is a quicker decision-making but the reality is we will invest even more in building at scale digital service lines, whether they are in digital transformation whether they are on customer experience management, whether they are on human experience management, or in cloud security or data. So, I know it is a long answer, but Sandip, I wanted to cover everything.

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

**Kawaljeet Saluja:** The first thing foremost is that this quarter seems a little bit light on total deals. Any thoughts around it as to why it is so and can you just provide an update on the pipe and then how does it compare to the pre-COVID levels?

**Manoj Bhat:** While on an absolute basis, what you are saying is right, but if I really look at the quarter, I think it is almost like the first half of the quarter was where obviously there was hardly any movement on deals and whatever momentum we are seeing is in the latter half of the quarter. If I look at our overall funnel also, I think the funnel size is higher, but of course, I do believe decision-making will be slower. From my perspective, as we look at it, I think clearly there has been an acceleration through the quarter. But I will invite Manish and maybe Jagdish to give more color on this in terms of deal wins and funnel and what they are seeing in the marketplace. Manish, can you go first?

**Manish Vyas:**

Like Manoj said, the three-fourth of quarter was mostly felt by the major operators in getting their network bandwidth allocation, getting their operations right. So clearly bulk of the management attention was on just keeping the lights on. and what they have done and we have done together with them is nothing less than spectacular given the manner in which the networks have to be readjusted with home being the new axis, home being the extension of the enterprise, large part of the time went into that. Clearly, all conversations around this deal, all pushed. And as a result, you see a lower deal wins for the quarter. Your question about pipeline, I believe that the funnel has not lived better than this in a long time. There are some interesting conversations across the world with major operators on a wide range of spectrum of things, from IP to digital to network to operations. So I think it looks good and we continue to work hard and hoping that as things settles and while there is still unpredictability around how will this pandemic layout, but there is clearly an active conversation, lot more and faster progress, people have learned how to work digitally to start driving decision. So, I do expect to grow going forward.

**Jagdish Mitra:**

On the enterprise side, I think there are a few things that are noteworthy. One, obviously, from a pipeline perspective, especially in the US, our pipeline has been strongest in three years. So, there is a large amount of work that is happening around total outsourcing and around large deal. So especially in US, I think we see a large, strong pipeline development that has happened and we expect these closures over the next few months as we look into it. Actually, the pipeline has grown across the company in various aspects. And the good part is if you look at the demand which is input into the pipeline, it has not actually slowed down, the input has been strong, but we probably expect a lot more as we get into the end of this Q1, has been more towards closures that have started to happen which was not so earlier so which is why you probably did not see a significant number of deal win announcements or the volume of the TCVs dropping in Q1. But I think the projections across the region and across a few other sectors, especially BFSI, HLS, and Hi Tech are pretty strong, and we are seeing manufacturing picking up as well start to the PMI index for showing up higher in Europe. So expect about Q2 and Q3 to start showing much better results and slowly coming back to our norms of TCv announcements.

**Kawaljeet Saluja:**

The other question that I had is performance of acquired entities. Now, some have done well, some have not done well, but as a portfolio it has been patchy in the past. Can you just provide an update on how the key acquired entities has performed in the quarter and mechanisms that you have put in place to ensure a more sustainable improvement? And once you get to the desired level of improvement, what is the kind of margin one can expect? And the other question I had was for Ritesh, which is that there is a belief that the contact into work will be automated or fundamentally reshape the post-COVID world. How well is Tech Mahindra positioned to tackle this challenge? And Ritesh, are you happy with the current mix of business between non-voice and voice and how do you wish to address the same? Thank you.

**Ritesh Idnani:**

Thanks, Kawaljeet for your question. So as you saw, in the last quarter, we did have a challenging quarter and COVID-19 had a material impact on our business in the fiscal first quarter where net revenue came in about 13% lower on a quarter-on-quarter basis. That said, as you are aware, most of this was primarily because it was a full quarter of COVID-related supply and demand impacts. And we saw that this was pretty much distributed evenly between the demand side and the supply side. Given where we are at now from work from

anywhere enablement standpoint for the workforce standing at close to 92%, we think that, as CP mentioned right at the outset, the business is starting to demonstrate a recovery. What we do believe, Kawaljeet, to your broader question is the fact that we do design principles around which we had architected the business now for the last several years, which is cannibalization of our own business through extreme automation and deliver to business outcomes. If anything else continue to remain even more relevant in the current environment and actually get accelerated, thanks to the pandemic itself. So, what we are seeing is a few different things – Number one, we are seeing a shift in some instances from voice to chat or voice to instant messaging and other such digital channels. And we are able to capitalize on that as part of our overall front office orientation itself, which we believe gives us an advantage relative to some of our competitors both on the traditional call center side as well as some of the players who focus primarily on the back office side. And number two, if you look at our mix on the non-front office side, that has steadily been going up in terms of contribution from what is today about 25% of our BPS business, we expect that to continue to increase in share as we take technology and platform-led offerings to create a consumption model for different horizontal and vertical areas as well. So we think the dual pronged attack of doubling down on what we are doing on the front-office side and executing on what we said on the two design principles, and using technology and platforms to continue to penetrate the back office gives us a wider market to play. And we are seeing the offshoots of that from a strategy standpoint, and from an execution standpoint play out as early as this quarter itself.

**Manoj Bhat:**

Thanks, Ritesh. Kawaljeet, on your other question on portfolio. I mean, clearly, I think we look at as a group of companies where we are trying to do certain things in terms of standardization around the back end, on the back office as well as drive revenue synergies. I don't think we can get into each and every one of them, I think clearly I have spoken about in the past around some of them which are troubled which is around Pininfarina, we have spoken about this. We have spoken about some issues in our Brazilian subsidiary. But what I will do is, Vivek if you are on the call, at least can we outline the principles of how we are approaching portfolio companies and summarize in terms of our approach to performance management as well as driving more synergies and greater cohesion with the overall TechM ecosystem, Vivek?

**Vivek Agrawal:**

Sure, Manoj. Hi, Kawaljeet. So, CP in his opening address referred to more closer integration across the acquired entities and the trading company across back-office shared functions and sales integration. So that's a theme which cuts across all our portfolio companies, as we move forward we would continue to accelerate on that. Our new acquisitions are landing in a more integrated fashion within the parent organization from day one. So that's a thematic direction in terms of the overall portfolio and new acquisitions. I think, as Manoj said, rather than going into individual businesses, clearly auto as a sector we have seen there is a demand challenge right now in the sector, so there is an impact there. Healthcare provider in the U.S., we announced a large deal win in that space, so we continue to see massive opportunity. But in the short-term, because of the pandemic, a lot of the hospitals were virtually shut down for anything other than caring for patients in the pandemic. So we have seen a short-term challenge on demand in that sector. So those would be the two biggest business units, Kawaljeet.

**Moderator:**

Thank you. The next question is from the line of Ankur Rudra from JP Morgan. Please go ahead.

**Ankur Rudra:** Thank you. And strong execution on margins and cash given the environment. The first question I had was on the outlook, given what we have seen so far and the deal wins, how should we think about the rest of the year? I think CP commented I think in the prepared remarks that you think probably the worst is behind. So from a shape of revenue for the rest of the year perspective, if you could just elaborate on how you think the rest of the year progresses? And as you address that, could you also add about how should we think about the conversion of previously won large deals and also any remnant tracks from supply issues in BPO networks? Thanks.

**Manoj Bhat:** So, Ankur, and I will pick up from where CP left, in terms of quarter one. Obviously, we believe it is the worst quarter possible and in terms of, first, margins, I think we do expect that margins will go up from here. I think balancing it out is, of course, multiple pulls and pressures, but on considering all of that I think we are very focused that for the full year we would try and improve margins from here, almost on a continuous basis is what we feel.

The second question on revenues, as Jagdish and Manish mentioned, the funnel is higher. Obviously, we are still seeing some slowdown in decision making, but we will get a much better picture moving forward. But even as I see more short-termish, I think we do see that we will see some revenue growth momentum come back in. And all my views are based on the situation I am reading today. So from that perspective, I think our goal would be to try and see how do we achieve both revenue growth and margin growth from here.

I think to your question around the supply side. Today, if I look at it, I would say most of the supply side constraints are out of the way. So if you look at this quarter, we started the quarter with some of the service lines with a very low ability to serve because of certain customer constraint as well as certain internal constraints. And through the quarter, we have built up our ability to serve, and some of these supply side issues have gone away. So to me, as I see that normalizing going into Q2 also, so I don't think that is going to be a constraint in terms of our ability to deliver.

So that's the way we see the year. I don't have a specific number for you. But that that's where we are today. And we do believe that this was the worst quarter for us and from here we will look to improve.

**Ankur Rudra:** That is helpful, thank you. I have got a couple of questions on comms after this. I know comms has been impacted by the network's business that has been a bit more volatile. How should we think about the underlying trend outside of networks? Because one would have expected a bit more resilience from comms, that's one. Secondly, there has been some geopolitical restrictions on Huawei in the U.K. and perhaps in other markets in Europe, how should we think about impact of that on your business?

**Manoj Bhat:** And I will request Manish to address both of these. Manish?

**Manish Vyas:** Sure. Ankur, thank you for your question. I think the quarter one, we saw the impact due to the inability thanks for COVID-19 restrictions for the network field teams, particularly in markets where we were gaining traction in last two quarters of so, that got impeded. Like Manoj said, a lot of that is now removed, or almost getting removed. Like Ritesh said, we had a substantial issue in the first part of the quarter on the supply side, because



work from home not getting enabled for some of the customers, or delayed enablement. And as you also know, in quarter one, typically we do have a seasonality impact of one of our portfolio business, so that also played out. Unfortunately, all three factors were there. We believe that we can continue to improve those businesses outside of that. And I think, as all of these things correct, I also share the same view that if nothing else happens, I think we should be looking for better numbers going forward. So I think, overall, given the correct funnel and the correction on these two or three areas of business which typically one had a seasonality impact and the other where we had the supply side issues, I think we should continue to do better, Ankur.

**Ankur Rudra:**

Manish, the second question was on, any thoughts on Huawei?

**Manish Vyas:**

Yes, I am sorry. I think that's truly has been playing out, and it is getting even more acute as a problem statement. So as we speak, many operators are thinking the next steps, and they are really dealing with two problems and two question statements. One, what do they do with their installed base, not in terms of hit and replace but in terms of how do they support. And two, what do they do with the new stack, particularly as Western Europe on the 5G stacks start getting better. We are expecting a lot of activity in that space. To CP's point earlier, we have always built a strategy that supports two or three key principles with aggregation of network, software based networks. And of course, the disruption in the supply chain. I think these three things do play out well for a system integrator like us. And we are already in discussions, in some cases early, but there clearly are discussions to start reimagining the network of the future architecture, on the principles that we have been talking and propagating for the last several months and quarters. So, I think that's really both geopolitical as well as new stack need in terms of the new architecture for building the agility, flexibility, the speed. Because as you know, 5G products and services that the operators will offer are going to be dramatically different than what you saw in the for 4G era. Keeping these two things in mind, I think there will be a lot of action, some people will benefit, who are incumbents but are not necessarily from China. But at the same time, with the success of Rakuten, as the network has gone live and is now supporting more than a million subscribers, it is very clear that there is a lot more interest in the disaggregated software based cloud native network. Which your company has always said that is the way to go, if you have to become a more web-scale type industry, so that we could drive faster changes to the product and services, unlike what has happened in the past. So good area to watch for together, Ankur, and I assure you that we are very focused on that.

**Moderator:**

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

**Diviya Nagarajan:**

Congrats on the good execution during the quarter. And also thanks for the items disclosure statement as well. My question is on, I think, CP's earlier comments on working on the margin improvement. And he also spoke about Manoj and teams putting together a set of activities to kind of ensure that, could you kind of detail that out for us a little bit please, especially what is being done that differs from what we have done in the past? And a related question to that is that, will these activities or set of activities ensure that the margins volatility that we have seen in the last several year's kind of then goes away and we see more stability in operating margins?

**Manoj Bhat:**

Diviya, let me try and articulate what we have done on margins. So if I look at two or three big buckets, one is, of course, more from a perspective of almost zero based approach to cost. So we have looked at all of the line items and looked at what is discretionary, what is non-discretionary and arrived at a new normal which is more thing around increased scrutiny, increased control. The second area is, of course, around making sure that there are some natural leavers like reduced travel, etc., which have helped in this quarter. But as we think about a broader approach to the model on delivery, I think there is an element of work from home which will come in, there is an element which will be linked to that which is about facility cost savings. There is an element of certain costs around travel etc., which will not be required in some of these models. So all of those will start coming together into the future.

The other area we are working on is really looking at increased automation in some of the service lines, which is a big driver for future efficiencies is what we believe. And then touching upon that which is kind of linked to the whole approach around combined delivery is, I think you saw the offshore revenue move a bit towards from onsite to offshore, that is an initiative we will pursue going into the year. So these are probably a longer term set of initiatives.

The second bucket I want to focus on was what we said always about some of the large teams and how we have invested last year. And clearly, I think, and both of those larger mega deals are going on track. And I think we should start to see some of those benefits come through in the next two or three quarters as these things go into a higher gear in terms of the execution plans on making sure that the expected return on these deals start to come, and it moves from an investment phase to a return phase. So that is the second of big block around margins. And the third one, which I think is the portfolio company synergies, and I did talk about in the integrated approach to both front-end synergies as well as the overall back-end synergies, and that should start contributing.

The topic which I want to talk about is, as part of this, there might be certain restructuring oriented costs on the portfolio companies, which we will have to take those calls as we come by it. So, these are the two or three main leavers. The other area where we are focusing very hard, and CP did allude to data analytics is around service lines and countries and of pruning our presence may be required in some areas where the yield does not meet some of the objectives. And that is one more area we are looking into deeper detail. So, combining all of this, I think there is going to be margin leavers which are more structured.

From a volatility perspective, I cannot say, Diviya, if we do get another mega deal I cannot say today that we might not see some swings. But those are some necessary investments we are making. But outside of those, I would expect that with all of these measures consistently working, we should have some measure of stability around the margin trajectory.

**Diviya Nagarajan:**

Got it. And just a follow-up to the 5G discussions that we were having earlier. I think you were earlier talking about timeline of end of fiscal 2021, by when we were expecting to see some 5G related spends come to for you. Does that still hold, or does it get pushed out to the fiscal 2022 because of the current situation?

- Manoj Bhat:** So, I think it was far earlier, because I think we have already said that maybe this is not going to be FY '21 phenomenon. But it looks like it might get pushed into the next year is what we have already said. And was that only clarification needed? Otherwise, I can ask Manish or someone to step in.
- Diviya Nagarajan:** Yes. And if you can give us some indicative timeline of when you actually expect, is it going to be early fiscal 2022 or it will further delay if you have any idea?
- Manoj Bhat:** Manish, you want to expand on 5G, what is your sense? What are you seeing?
- Manish Vyas:** Yes, so I think, Diviya, thank you for that question. We believe that the 5G, and I think CP articulated quite nicely in terms of how we look at the 5G world in all three spectrums. The 5% for service providers at both the network level as well as the system changes, that is clearly pushed out by five to seven months, so sometime early next year we will continue to see a greater velocity on that as the decisions happens, particularly in markets where we still have not had the spectrum allocation and the delays are still there. For example, you have also seen some discussions now started in India and other places. As far as the enterprise is concerned, some great interest. But some of the early used cases are not likely to be 5G dependent, they are likely to be "intelligent network enabled" use cases. So that probably is another, maybe a few more months behind the network build out. So we are talking sometime early next year when we will see a little bit more momentum and across the board people who start spending. But also, I hope you recall that we have always said that the pattern in which people are going about the 5G enhancement and deployment is going to be not necessarily all in one big bang. Every operator is going to start driving different methods of adopting 5G. So that is where you will also see this lot coming in as a big one spurt, you will see it as a gradual increase and improvement across the different parts of the world, different operators and different areas of the network. You probably will start seeing a little bit of 5G for core. There is an increased discussion around open RAN now. These are very early discussions, because people have gotten excited about some early success with smaller operators. But these are big capital investment decisions and particularly, as we know better than most, the service providers take a very, very cautious measures, big technology changes to their core network. So I think we are talking sometime early next year.
- Moderator:** Thank you. Next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.
- Rishi Jhunjhunwala:** Just one question on deals, right, and the ramp-up. So clearly, we had a phenomenal year last time around. Just wanted to understand, do we have all those deals ramped up already or were there delays which could possibly come in future, and as a result, support revenues? The reason why I am asking is that, basically do we need to rely on the deal intensity to pick up to see sequential growth for the rest of the year?
- Manoj Bhat:** Rishi, I think from those deals, I would say that, at least on the communication deal, Phase 1 of the ramp up was done. And I did mention that this is a deal which will be a layered kind of deal, and we will win some more incremental. The timing of that could be a bit uncertain, but that that is the deal structure. And the second one, I think it is almost that particular piece of work has been fully ramped up as we speak in Q1. And from

now on it's about, we have entered a new customer through a large engagement and how successfully we are able to leverage that entry, that's the kind of profile we can see there. So does that answer your question?

**Rishi Jhunjunwala:** Yes. And secondly, just on the margins, if you can just repeat the margin walk for the quarter.

**Manoj Bhat:** Margin walk for the quarter. Rishi, I can send it to you offline. Is that good?

**Rishi Jhunjunwala:** That's fine, sir. Thank you so much.

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

**Pankaj Kapoor:** Sir, two questions. First, on the pricing. Manoj, any view how the pricing discussions have been? And when we are talking about deal discussions getting elongated, any sense in terms of is it around pricing or the commercials of the deal terms? That's my first question.

**Manoj Bhat:** So, from a elongation perspective, it is not so much about commercials or pricing, it is about that how do people take decisions more effectively in a different environment. And that's what I think even CP alluded to that, that's also something which people are learning. And I think Manish also spoke about kind of the same thing. So, I think we should see that normalize over a period of time.

On your basic question around pricing. So to me, I think, obviously, it is limited to certain sectors, which is about how do we reduce total cost of ownership, how do we make sure that the right focus in terms of dollars going to the right service lines and the right businesses within the customer. And those discussions are more holistic in nature, it is about a combination of deliverables in the contract, location of delivery as well as obviously reducing total cost of ownership. So those actually have been fairly limited. And I do not think we have seen a material impact when we don't anticipate as of now, a material impact because of that. But again, this is a dynamic thing, so as and when we see that we will probably raise it.

To me, the current view which we have taken is, of course, that in all of these we are supporting the customer in finding a better way to drive same outcome or more outcome for lesser dollars using a combination of these measures. And the second feature which I have spoken about is, many of these are even then short-term in nature and they are not long-term in nature. So that's the two things I can mention about pricing.

**Manoj Bhat:** Understood, that's useful. And my second question is on the working capital side. So, going into the quarter there was a fear that the DSOs might go up. But obviously, you have been able to control them fairly well. Given the cost control measures and the internal focus which has now come in on the operational side, do you think that these levels can be held going forward as well? Or you think that there could be some deterioration in the DSOs as the revenue growth comes back? Thank you.

**Manoj Bhat:** So I think DSO, for example, I did say that this quarter has been a bit unusual because we have actually gone back to customers and some of them have acceded to request, even paying some invoices which were not due. To that extent, there might be a small adjustment, but otherwise my view would be that I think as we go

through the next phase, I think we have probably gone through the worst quarter in terms of customers coming back on that front. And, so I would like to believe that we would be able to maintain it here, obviously, adjusting for that element I spoke about in terms of some of the advances and some of the early collection we have done. But that's the way I would look at DSOs for the year.

- Moderator:** Thank you. Next question is from the line of Sumit Jain from Goldman Sachs. Please go ahead.
- Sumeet Jain:** Congrats on good execution on the cost side, particularly. So, Manoj, a couple of questions for you. I think, firstly, in the prepared remarks, you mentioned that 7% decline was due to COVID this quarter, out of which one-fourth was supply led. And I am assuming, against that supply constraint you hired a demand to fulfil. So would it be fair to assume that now the supply constraints are behind us and the demand is still there, so in BPO and network we should actually see a sequential recovery as far as our supply is concerned.
- Manoj Bhat:** I would build that into the base case, because it's also a law of averages kind of thing, right. So, so I think that will also help going into Q2.
- Sumeet Jain:** Got it. And secondly, I think in your expense structure, I can see the subcontracting expenses have gone up on a sequential basis, given in absolute terms. While we generally see in this quarter that subcontracting expenses have gone down for almost every one of your peers. So can you just comment on that front, why there was an increase? And secondly, whenever we execute on any large deals, typically the subcontracting expenses go up. So how are we trying to derisk that margin deterioration in the long run?
- Manoj Bhat:** So, that increase is largely because we assimilated those two numbers, right, from Zen3 and Cerium into our books during the quarter. So all of that increase, a large portion of that increase is there. But from a material perspective, it is flat, it does not reduce. But that's where I said that that is another area we are focusing on hard, going into future quarters.
- Sumeet Jain:** Right. And secondly, the follow-up for in terms of executing any large deals in the future, like to mitigate increase in sub-contracting expense. How are you trying to mitigate that?
- Manoj Bhat:** I think it all depends on the deal structure, right? So I think, for example, one of the things we took ownership on day one, and in fact, on both the deals. So obviously, in that kind of structure, you will see a sharp ramp-up and ramp-down potentially of cost, as and when we take ownership of delivery on our own. So I don't know whether that was the question, but it depends on the deal structure. In some cases we might not have, in some cases we might have, it all depends on what is the kind of ownership we take day one and what is the current construct of the delivery model of the client.
- Sumeet Jain:** Got it, Manoj. And one question for Manish, on the telecom side. I think, generally, we have seen a lot of resilience in the telecom CAPEX expending or even the spending on the network side. Now, given that this quarter, obviously, we had much more supply constraints and the business seasonality, so Manish, how are you looking at the revival in the telecom business in the remaining nine months? Given the supply constraint would be largely behind us.

**Manish Vyas:**

Actually, like I said, hopeful and optimistic that we should continue the revival and the growth, based on the factors that impacted our Q1 numbers. And based on the discussions that are underway right now, and of course, the older deals that we have as they continue to execute well. So I do believe that we should, across the range, across the region and across a range of offerings, we are seeing significant dialogue interaction in terms of new opportunities. We still have to watch for the fact that there is a big large part of the telco business that has got impacted very negatively, which is their enterprise. Because the enterprise have found a way to, not all of them, but most enterprise sectors have found a way to continue their business. However, from a network infrastructure standpoint, that need has significantly shifted, the traffic is not going back to the content business districts very quickly. So, much of that will be an impact on what will be the steps that they will take, both on the cost as well as technology capital outlay, it remains to be seen. Almost everyone has been, right from giving a very broad commentary with their commitment towards networks spends. However, the specifics of that is still playing out. So we have to watch, there are still some uncertainties and areas to watch for. But overall, of abroad general commentary, I do believe that the worst is behind us in the quarter one.

**Moderator:**

Thank you. Ladies and gentlemen, due to time constraint, 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 the call. If there are any unanswered questions, please do reach out to Kaustubh or me, and we will be happy to answer your questions. Thank you.

**Moderator:**

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

*Note: The above transcript has been edited for better readability*

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