

31st July, 2023

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

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

Subject: Transcript of the earnings conference call for the quarter ended 30th June, 2023

Dear Sir/Madam,

In terms of Regulation 30 and 46 read with clause 15 of Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call for the quarter ended 30th June, 2023 conducted after the meeting of the Board of Directors held on 26th July, 2023, for your information and records.

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

Thanking you,

For Tech Mahindra Limited

Anil Khatri
Company Secretary

Encl.: as above



“Tech Mahindra Limited Q1 FY '24 Earnings Conference Call”

July 26, 2023



MANAGEMENT: **MR. CP GURNANI – MD AND CEO**
MR. MOHIT JOSHI – MD (DESIGNATE)
**MR. MANISH VYAS – PRESIDENT (COMMUNICATIONS,
MEDIA AND ENTERTAINMENT BUSINESS) & CEO -
NETWORK SERVICES**
MR. ROHIT ANAND – CHIEF FINANCIAL OFFICER
**MR. JAGDISH MITRA – CHIEF STRATEGY OFFICER
AND HEAD OF GROWTH**
**MR. BIRENDRA SEN – BUSINESS HEAD – TECH
MAHINDRA BUSINESS PROCESS SERVICES**
**MR. VIVEK AGARWAL – PRESIDENT – APJI
(ENTERPRISE), BFSI & CORPORATE DEVELOPMENT**
**MR. HARSHVENDRA SOIN – GLOBAL CHIEF PEOPLE
OFFICER AND HEAD MARKETING**
**MR. LAKSHMANAN CHIDAMBARAM – PRESIDENT –
AMERICAS (ENTERPRISE BUSINESS)**
**MR. ATEET DHAWAN – CHIEF TRANSFORMATION
OFFICER**

Moderator: Ladies and gentlemen. Good day and welcome to the Tech Mahindra Limited Q1 FY24 Earnings Conference Call.

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

I now hand the conference over to Mr. CP Gurnani – MD and CEO, Tech Mahindra. Thank you and over to you Sir.

CP Gurnani: Good morning, good afternoon, good evening wherever you all are thanking you for joining this Call.

This Q1-FY24 Earnings Call, I have with me my senior leadership, whom most of you have interacted with, but I do have my other colleague, Mohit Joshi, who is taking over from me, and he is MD (Designate). I want to take this opportunity on behalf of everyone to welcome Mohit Joshi to Tech Mahindra. He has now spent about 5 weeks in the Company and as the old saying goes, “baptism by fire”. Sure enough, he is getting the required exposure at the same time. He will share his own experiences with you.

Tough times don't last. Unprecedented times don't last. Challenges of global economy, challenges of communication media sector. I think I can keep counting. Several reasons why Tech Mahindra has faced one of its toughest quarters in recent times. My own personal belief is some of the transformative projects coming to an end, one odd customer declaring bankruptcy, a few challenges on the road and overall, the revenue drop and our cost, I mean we have not been able to balance it, right and which has become a prescription for a reasonably bad quarter in terms of our overall performance and I can only see an upside.

Really three or four reasons why I think we have a decent upside:

1. Our client-driven, customer relationships. Our dialogue with the customers is still strong. That effectively means we can plan a lot better, and our customer centricity will help us recover from where we are.
2. Our investment in talent. Just to give you an example, we trained and upskilled 8,000 people last quarter in new AI platforms and in generative AI. Effectively, that means that we have used some of these challenges to repurpose and retrain our people. So, our focus on people, focus on talent overall, is quite strong. Generative AI Studio developing a large set of solutions and use cases. I think it will help us as we go forward.
3. We clearly are again investing making sure that we continue with our investments not only in the new technologies, we have announced more investments in quantum-computing, cybersecurity and AI, but I think overall our primary differentiator will be

5G connected solutions and networks and experience management. And we will convert them into solutions for the clients, not only the 30 use cases that I said about AI, but also by increasing our reach with the clients.

4. Last but not the least, there are operating levers, both Harsh and Rohit have worked, and we are getting into that mode of “Execute, Execute, Execute”.

So, while we have various accolades also from our technology partners, from different customers but I think it is important to recognize that our results could have been better.

I can take you through the Results, but I think the best way is to reinforce my confidence that this quarter is a blip in our growth trajectory. We have a robust pipeline of opportunities across all geographies, across all verticals, across all service lines. We pride ourselves on our customer centricity and people centricity. We are confident in our ability to overcome the current challenges and we will appear stronger as a leader in the IT Services industry.

We have a solid foundation of capabilities, assets, values and differentiators from our competitors. The market demand is still strong, and we do believe that we are in a position for future growth.

So, I can only reinforce that treat this as a blip and we are getting better focused on execution, more agile on meeting revenue and cost.

And over to you, Rohit. If you would like to take us through the numbers.

Rohit Anand:

Good evening, everyone. Good morning, good afternoon basically where you are.

Let me cover the Company’s financials for the Quarter Ending June 2023.

We ended the 1st Quarter with revenue of USD 1,601 million versus USD 1,668 million in the last quarter, which was a sequential decline of 4% QoQ. The decline was greater in our CME vertical, which declined by 9.4%, while the Enterprise decline was marginal at 0.4% QoQ.

Our TCV deal wins were lower than in the previous quarter at USD 359 million. Revenue in INR terms was INR 13,159 crores versus INR 13,718 crore in Q4, showing a reduction of 4.1% QoQ.

The EBIT for the quarter was USD 108 million, rupee terms INR 891 crore versus the last quarter at USD 186 million, in rupee terms INR 1530 crores in Q4.

The EBIT margin was at 6.8%, a drop of 440 basis point due to three areas of drop:

1. Revenue drop, impacting margin quarter-over-quarter. We had to take a one-time provision in the quarter mainly driven by certain customer declaring bankruptcy and

on accounting principles, we have to reserve for that exposure that's causing a one-time provision in the quarter impacting margin by approximately 2%.

2. The seasonality in Comviva where the top line decrease impacted the margin of 0.5%.
3. There is 2% on one-time provision, reduction 2% broadly on revenue drop impacting margins and 0.5% due to Comviva seasonality.

Below EBIT other income for the quarter was USD 23 million versus USD 37 million in Q4. The quarter's gain was USD 5.4 million compared to a loss of USD 0.8 million in Q4. The effective tax rate for the quarter was 27.6% and PAT for the quarter was at USD 84 million in rupee terms INR 693 crores.

Net profit margin for the quarter was 5.3%. Our free cash flow for Q1-FY24 was USD 106 million, 126% of PAT. DSO was up by 2 days at 98 compared to Q4 at 96.

As mentioned earlier, we continue to consistently follow a rule-based hedging policy. As of June 2023, the total hedging book was USD 2.7 billion versus USD 2.3 billion in Q4'23. Based on hedge accounting treatment net mark to market at the end of 30th June was USD 33 million, of which USD 8 million was taken to the P&L and the rest USD 25 million was taken in reserve.

We have the cash, the cash equivalent of USD 939 million, in rupee terms INR 7,701 crores as of 30th June.

In summary, I would like to reiterate that we are committed towards executing the planned target action as CP mentioned to improve our profitability as we head into the rest of the year.

CP Gurnani:

Rohit, I'll just talk for 30 seconds. I just wanted again to welcome Mohit and Mohit, if you would like to just say hello to the audience.

Mohit Joshi:

Thank you, CP, and it's great to speak to all of you again. Just to make three points. The first is that as CP mentioned it has now been five weeks since I joined TechM and I've really been gratified by the very warm welcome I've received from the teams, from the wider ecosystem, from many of you and from our clients.

The second piece is that over the past four to six weeks, I've had the opportunity to visit many of our clients, to visit many of our centers to take stock of our service lines and I'm very enthused by what I see: a very strong connect with the employees, who really have a very unique affinity to Tech Mahindra and to the broader Mahindra Group and its values. Got to meet a set of customers who again in most cases have had a multi-decade relationship with TechM and really see us as an integral part of their tech-driven transformation journeys. And then got to a sense of our service lines, right, which really have seen a lot of investment, our innovative, and across the board are being infused with AI as well.

And the last point I wanted to make was obviously we've had a challenging quarter, but in the medium to long run, again, given what I've seen of the company, our clients, the ecosystem, I remain very optimistic about the opportunities in front of us. I look forward to working with all of you through many, many years to come. Thanks, CP.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Sandeep Shah from Equirus Securities. Please go ahead.

Sandeep Shah: The first question is looking at the decline in the revenue at close to 4%, is it fair to say that most of the headwinds on the demand especially on the communication side, is fairly behind where you may see a gradual recovery or you believe full quarter impact, which has not come in the first quarter, may come in the second quarter? And Rohit, just a bookkeeping question, in terms of 200 bps provision for doubtful debt looks like the client may have a revenue above USD 100 million, looks like a big client, and is it in the telecom account or in the enterprise?

Rohit Anand: So, maybe I'll answer the second one first, Sandeep, and then we'll go to the first one. On the second one, it's a cumulative number from the discussion the customer had been ongoing for the last 3-4 quarters, right, and that's amount is a pile up of that, the quarterly revenues already in the Q1 baseline is impacted, so we've not taken that revenue, it's quarter over quarter, not going to have a decline or any impact to the year in terms of run rate, but it's a culmination of three, four quarters of impact. So, that's on the one-timer. And then in terms of communications, I would say, you're right, most of the headwind is behind us as we look forward. But in general, the telcos are still pretty tight on their budgets on any capital outlays of projects as well as on OPEX. The focus is a lot on over OPEX reduction. So, as we move forward, we'll continue to work closely with them to ensure that we align our strategy in making sure we help them drive more outcomes as they look forward to the rest of the year and the next year. So, I'll also request Manish who is on the call to give a little bit more flavor on as he looks forward for the rest of the year, how does he see it across regions and customers.

Manish Vyas: Sure, Rohit. I will just add one additional point to what you just said. I do concur with Rohit that the worst is behind us, most of the headwinds we have seen. There is another factor that does happen in Q1. I hope all of you do recall there is an element of cyclical nature to one or two of our businesses. That also plays out in Q1. Our endeavor always is to try and compensate for that through additional growth. But then this was like a perfect storm where all budgetary pressures on discretionary as well as the cost take out on current OPEX, all three factors were happening at the same time. So, fundamentally and structurally, I think we are still very well placed to continue to scale growth from here on.

Sandeep Shah: Rohit, how to look at margins going forward? And a question to Mr. Mohit, as you have joined, it looks like both the departments on margin and revenue growth need a turnaround. So, would you like to first focus on margins and then look for turn around or you may look to manage both and repair both on a going forward basis?

Rohit Anand: So, Sandeep, maybe I'll take care first in terms of our action and then pass it on to Mohit for his views. But from an action perspective, when you look at where we are in terms of the opportunity, I think there are three, four areas that we've articulated before, which we will continue to execute. We've seen some improvement in these metrics, but I think there's more to be desired. So, if you look at subcon, our cost was 16% of revenue which we now move closer towards 14% and we said that we will continue to aspire and get towards less than 10% there, right. So, that continues to be a focus area as we move forward for the rest of the year. When we look at the Juniorization opportunities of our pyramid structure we've articulated that that's an area of improvement. As we go forward, we'll continue to invest in that and make sure we bring more juniors into the organization driving the more efficient average resource cost that will help us give more productivity as we move forward. We will continue to drive offshoring because we had mentioned that we have room of 4% to 5% improvement in medium term and continue to execute on that. So, these are the operating levers we feel comfortable available to us to execute as we move forward and then the divestment for non-strategic portfolio, while it has small impact on margin improvement, it does have a significant impact on managerial bandwidth to focus on what matters most. So, we'll continue to drive that also for the rest of the year. So, these are some of the levers that we'll work on, and we mentioned those in the past as well. I'll hand it over to Mohit to give his views.

Mohit Joshi: To add to what Rohit said, look at the end of the day, it has only been five weeks in the organization and I'm more in a mode to listen and to learn. And we have an extended transition over the next five to six months. And so, we'll develop a plan in concert with the entire team to turn the trajectory around. Again, I'm sure a lot of those actions will be similar to the ones that Rohit has just outlined.

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

Vibhor Singhal: So, just wanted to take a dig deeper on to what exactly transpired in the telecom sector and how do you see this going forward, do you think that large part of the cuts that you saw in this quarter are kind of done and hereafter we've kind of hit a bottom in this one or clients are still reluctant to spend, there could be more cutting discretionary spends going forward in the coming quarters and any other scope for, let's say, recovery in the telecom spends that you could see over the next few quarters?

Manish Vyas: I don't think anything in this large industry happens in very short bursts. There are obviously patterns. There are things that we have been discussing over the last several quarters as well in terms of how the industry is shaping up. You've seen in the results of many of our other esteemed competitors the pressure points that we are facing. The way we look at it and we are analyzing the situation is that there will be lot of reprioritizations that will continue to happen on digital transformation projects. Almost all the major operators are evaluating those and where they need to press the pedal versus where they need to take their foot off the accelerator. And we are very well entrenched in all those conversations with most of our key customers to understand that. The other pressure point is of course on the OPEX because the cost of capital has changed

dramatically. Due to this the need to generate more cash is more acute at this point in the industry. I can't predict how soon things will ease out but where we have a good vantage point is from our funnel and our pipeline and the discussions both in terms of cost as well as opportunities. This is why I called it a perfect storm last quarter that maybe we've hit the worst, and we now need to start gradually inching forward. I'm not saying all pressure points are over and done with, actually some of those we'll have to continue to deal with, it will be a gradual progress in terms of recovery for the industry and as a result for someone like us, but I think we will start making good progress from this quarter and definitely from the second half of the year.

Vibhor Singhal:

My second question was especially on the manufacturing vertical. I think the manufacturing vertical has held up quite well for us over the past 7-8 quarters. I think in the eye of the cut in discretionary spend just wanted to basically understand how this segment is looking, because I think we've seen this for other players as well the manufacturing vertical continues to be the one where almost all the IT vendors are kind of seeing continuous growth. So, is this vertical where we could see maybe this growth pattern and the spending continue or what is our conversation with our clients leading us to believe?

Rohit Anand:

So, maybe I'll add a little bit of flavor to this and request Jagdish to add a few more points. But just if you look at manufacturing, overall, the industry is going through a transformation, right? So, when you look at any segment within manufacturing increased digitization is happening, more and more embedded software is getting created in the machine. That is making the change in terms of the requirement from those companies in terms of services they request from us; the requirement is becoming software-oriented, the engineer skills requirement that is being gathered, getting more software-oriented. So, with that, there's a lot of transformation happening and we're seeing the demand shift more in that nature. When you look at our focus on manufacturing standpoint, we are heavily entrenched with automobile aero, both of them are growing very, very positively from an industry dynamics perspective. A lot of automobiles are switching their plans from the existing mechanical cars to more electric ones and they need platform orientation, they need engineering support there, they need the system to be put together. So, a lot of investments that are happening in that area are favorable to us and then the aero vertical is back to shape with travel coming back. So, I think that's something we've also recognized, and we continue to invest in this vertical. We made some inorganic investments also around thirdware which will be helping us and then some competency that we got. So, all of that together is helping us penetrate the clients better. We're helping them service with more and more service lines, not just IT, engineering support, but with commerce from an experience design standpoint or BPS, which is a very strong and robust franchise for us. So, it's helping us penetrate better with the same clients, with the credibility we've been able to drive, the legacy of which is very strong from a marketing standpoint. So, that's kind of the underlying reason why we feel good about it and we see that the trend will continue favorably as we look forward to the rest of the year.

Jagdish Mitra:

Thank you for the question and Rohit, you've outlined it. So, from our perspective, growth obviously has two components to it from let's look at markets and let's look at the segments. If

you look at the markets, a good part of the growth in manufacturing today is being driven by Americas and EU in terms of the opportunities that are coming, the areas are right as already outlined by Rohit - primarily auto which is our strong segment partnered with industrial and Aero and Defense, but also is a function of investments we've done. We've invested in building a solution and our engineering services are a critical player in driving the growth, the IES capability and the digital capability that we've added. In both of these, the segments that we've invested in for electrification and in industry cloud with hyper scaler, a couple of them I think is what gives us a little more bullish impact of where we think manufacturing growth will sustain. The pipeline is also quite robust, and I think we will start to see even though the conditions overall are tepid, we will see growth in manufacturing.

Vibhor Singhal: So, just to wrap it up on that, so we're not seeing too much impact of any cut in discretionary spends in the manufacturing space, is that what we can conclude or do you think they are being more than mitigated by the kind of catch up spend that the industry has to do?

Jagdish Mitra: I think in this case our work profile defines where the growth is coming from. So, a lot of our work profile is today driven by running the business platform. But especially as you know, on the auto sector, both on EV as well as on some of the platforms we have created, the warranties and some of the other solution platforms we've talked about, are becoming critical for the demand to be fulfilled in the auto sector, and though in discretionary spend, there is not much cut there, so in the auto segment at least we have that strength coming together.

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

Gaurav: First, how should one look at outlook for second half in respect to the deals that you had like the trailing 12 months deal win is down by 25%, keeping that in mind, how do you see your second half playing out, what are the areas that is giving you confidence? Second is on areas of business that are actually positively exposed to generative AI versus the ones that could be negatively impacted due to deflationary pressures, how are we preparing for this? And lastly, within the top 11 to 20 accounts, it looks like a significant decline. Anything going on there?

CP Gurnani: I think it's a good question. So, let's look at it a few different ways. Clearly not only in introspection, but it is also time to act. As I said, the company has a definitive plan to look at how to stop looking back, but to look forward and look at all the three vectors that will help us improve our response to the market. Number one is being able to look at all the technology investments and also look at all the reskilling, upgrading our own people or using this opportunity to take a few tough calls, for example, our onsite-offshore ratios, our subcon hiring, and juniorization. So, that is one which I say which is an easier playbook, but important focus is execution. The second part is on the growth vectors. I think there is two parts to growth vectors: Number one is on the deal flow be a little more realistic about the closer dates because customers obviously are in different segments reacting differently to the cost transformation or business transformation proposal. If you're more realistic about our closing dates, I think we will be able to prioritize a lot better. Number third, in terms of increasing our account penetration, account

reach or to get better engage with the top 200 accounts, I think we're doing a reasonably good job. It's just a question of how to recalibrate ourselves during the headwinds. So, obviously what I'm trying to say is when you can't score runs by sixers or the bigger deals, then go for singles. So, those are the strategic changes that we need to make. But overall, I am confident that this was a tough quarter, but it was also a tough wakeup call that we need to be a lot quicker, agile and we need to readopt our strategy for each of our customer success offices and each of our large deal programs.

Moderator: Thank you. The next question is from the line of Sudheer Guntupalli from Kotak Mahindra AMC. Please go ahead.

Sudheer Guntupalli: Rohit, is it possible to quantify the revenue impact of the client bankruptcy event in this quarter?

Rohit Anand: So, revenue impact in this year is going to be none. But when you look at year-on-year, quarterly run rate of USD 6 million to USD 7 million.

Sudheer Guntupalli: So, on a sequential basis, you had a hit of USD 6-USD 7 million because of this event?

Rohit Anand: Q4 versus Q1 yes.

Sudheer Guntupalli: And is the wage hike impact taken in the quarter partially or at least or that is still pending?

Rohit Anand: Majority of the wage increments already done in Q1. Only for certain senior proportion of the employee base - it will happen in the following quarter.

Sudheer Guntupalli: Got it, Rohit. And last question, in a quarter like this, obviously one would have expected the company to dial down on cost, but your sales and support headcount seem to have increased by almost 200 people. So, is it sales driven investments that you are upfronting or are there some element of support staff addition here?

Rohit Anand: That's part of our leadership program hiring that we do for campuses with annual exercises. It's more driven by that.

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

Ashwin Mehta: If you look at your head count, there's been a 10% reduction over the last 3 quarters, but our employee costs seem to have gone higher. So, is it that the cuts happen more towards the end of the quarter, this quarter? What is driving this?

Rohit Anand: So, when you look at 2-3 aspects, which is when you look at year-on-year or last year while the head counts overall down, but when you look at increases, the increments happen more towards Q2 last year. So, in the baseline, you don't have that impact. And this year, we have managed to effectively increase for a majority of the population. We've done it effective April, right? We

have a double impact there from a wage inflation perspective, that's causing an offset in a way to the correlation, to the headcount reduction and for the QoQ movement, while the reduction has happened in IT of approximately 2000 people: yes, from a timing perspective, it's more towards the second half as well. That will show us the full quarter impact. Then I think, in addition to that what we've done as part of the strategy is that will continue to reduce the cost and wherever we have the skills that we've been working on, we've replaced those Subcon resources with the full-time headcount. That is also reflected as it is mostly onsite.

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

Rishi Jhunjhunwala: Just wanted to get some more color on our expectation of margin recovery over the next 12-15 months, especially if you look at from a headcount expense perspective, we are currently operating at 87% utilization, have seen a 10% headcount reduction in the last three quarters and our offshore mix also is pretty much at an all-time high. On the flip side, we are also talking about subcontracting, which would mean that subcontractors have to be replaced by permanent employees. So, effectively if we had any sort of growth coming back over the next 12 months, then our headcount growth has to be faster than your revenue growth. So, just trying to understand, I mean some of the levers that you talked about in terms of recovery beyond say the current blip that we have, what exactly will drive that specifically?

Rohit Anand: So, Rishi, few areas then maybe I'll start with the Subcon that you mentioned. The 2-3 areas within the Subcon, while in some cases you'll end up replacing Subcon with a full-time headcount. But when you compare cost-to-cost basis, there is a differential easily of around 25% there, right? So, typically you would say a 4% reduction there will reach 1% overall impact on margin that is one. That's one kind of direct-to-direct replacement if you do. Second is even within the Subcon bucket, there's a lot of opportunity from a vendor perspective that we continuously work on to see how we rationalize and optimize the scale benefit at a company level. Those are multiple productivity initiatives that we will continue to drive for overall Subcon spend given that quantum is pretty large. When you look from a company perspective, 14% from an annual basis, you're talking about 800 million plus spend. Then when you look at leveraging the scale benefit, there's all productivity opportunities that we can drive there, right? So that's the second that we'll continue to work on. And then from other perspective of margin improvement, while the utilization is high, from an offshoring perspective we have a good 3% to 4% more headroom to get better on offshoring versus where we are today that should give us significant benefit and then juniorization when we look at the employee base today versus how much pressures we have in the system and how we can drive that go forward? There is an opportunity that in the medium term we can get better on. So, those are some of the levers that we can continue to work on. And then as I mentioned before, one of the areas that we look at from a large deal perspective getting into more maturity stage and execution tightening there in line with the planned view, I think that will also help us improve profitability as we drive more productivity in those projects. So, those are some of the levers that we will continue to drive as

we move forward, including rationalization, secure or divest certain business which we don't feel is on the long run strategic or giving us the value that we want.

Moderator: Thank you. The next question is from the line of Girish Pai from Nirmal Bang Equities. Please go ahead.

Girish Pai: Thanks for the opportunity. The second-half recovery is based on the existing TCV or are you expecting any significant TCV expansion to happen from 2Q onwards that's question #1. Second, one of your larger peers talked about shifting away from 5G in the telco space, is that what you're seeing on the ground? What does that mean for the investments that you've made in the 5G space?

Manish Vyas: I have mentioned that there is a reprioritization happening in the industry from a digital standpoint and the digital in telco parlance, answers to everything from 5G to their customer experience platforms to the core BSS and others. And that is happening because they are clearly looking at where do they get a better bang for the buck from a short term. In terms of if it's the US, then it is about a better conversion on the wireless consumer. In parts of Europe, they're looking to shore up their enterprise businesses. And clearly as now we all have seen the enterprise use cases and revenues from the 5G is going to take longer than probably anticipated so that I think is indeed true. I guess we are observing the same pattern. The reprioritization is underway. That said, I don't think our investments are in any kind of jeopardy. All of them, both on the devices as well as on or for that matter, on our software platform side, all continue to do very well, and I think they will continue to serve us well in time to come as we go forward. I don't think we are worried about that aspect as far as our portfolio is concerned.

Moderator: Thank you. The next question is on the line of Manik Taneja from Axis Capital. Please go ahead.

Manik Taneja: Just wanted to understand why our revenues in Europe and RoW have declined sequentially. In addition, can you also help me with reasons for the decline in active clients? And the second question was with regard to the comments that the Management had made after Q4 Result that FY24 will be a very strong year for deal closures, given what we have seen in Q1 how should we be thinking about this comment going forward?

Rohit Anand: So, Manik, on deal closures, first, I think we have articulated that our first half would be tough given the macro environment and the situation. So, we always maintain that that first half will be tough, and second half will be a recovery. It will be a mirror opposite view of the last year where the first half was okay and second-half start getting tougher, right? So, I think that's what we said and what it's turning out to be is a little bit worse. Hence, the dip you see in the current quarter. And I think that's been consistent from that perspective. In terms of the other question, you had on number of active clients, I think that's more driven by the reporting guidelines we follow on threshold of revenue in the quarter and the last 12 months and basis that bottom 40-odd clients the fell off that threshold requirement and that's purely a tail change from a quarter-

to-quarter perspective, nothing more than that. And I think you have one more question, sorry, Manik, if you can repeat that.

Manik Taneja: So, the other question was with regards to a sequential drop that we've seen in Europe and RoW as compared to North America holding up quite well. If you could help us understand how the two sides of the business, Enterprise and Comms, would have performed across each geography.

Rohit Anand: So, RoW is partially driven by the Comviva seasonality and certain closures in projects that happened in network services with one of our customers there where we are working on a large project with them, so that drove the RoW decline sequentially. And then from a Europe perspective, again the decline in Communication verticals driven more around the Leadcom and LCC Network Services where there were project closures versus Q4 that led to the decline there and in general certain discretionary spend cut with the telcos that Manish mentioned overall more aggravated in Europe this time than US, US is broadly flat QoQ.

Moderator: Thank you. The next question is from the line of Mukul Garg from Motilal Oswal. Please go ahead.

Mukul Garg: I have two questions, one for Rohit and one for Manish. Rohit, first of all, just a clarification. If you can help break down the impact on margins from wage hike this quarter and secondly, all the steps which you articulated the steps to improve profitability, juniorization, offshore and subcon reduction, won't that be a little deflationary on revenues going forward? How are you looking going to replace the impact on growth from maybe billing impact? Manish on the Communication side is it possible to give some color on the areas which were impacted? and if you look at BPO, it grew this quarter, so the impact was pretty much on the IT side. Was that Network Services or the IT which got hit? We have seen commentaries from a lot of telecom equipment guys being fairly negative on spend. So, if you can just give us a color on what is driving this decline?

Rohit Anand: So, maybe Manish kindly give the Communication answer first and then I'll talk about the other point.

Manish Vyas: So, Mukul while we partially answered it earlier, both Rohit and I, but just to be clearer and more specific, one is there is the cyclicity that happens to our Comviva business. Second, a pretty significant impact from a project closure in the Network space in RoW. Which is just that in Q4, we did significant amount of work, a little ahead of time, which I think was positive. From an overall spend and where the pressure points are, it is both in the Network as well as in the IT space, and IT is largely coming because some of the digital transformation work that had started 3-4 years ago either they have come to closure and as we speak for the new projects that they were about to award, they have pushed these decisions forward as they reprioritize these things. So, I think that's coming in from both the Network as well as from an IT Transformation standpoint if that answers your question.

Rohit Anand: And just to clarify, your questions were one on incremental impact for the quarter and then second, the margin levers for the rest of the year, how much of that is driven by growth or elsewhere is it?

Mukul Garg: So, the second question was that, as most of the margin levers which we are contemplating tend to be deflationary on growth, how to ensure growth without compensating on margins. How should we look at it?

Rohit Anand: So, first from an increment impact perspective for the quarter, as I mentioned, we did increment for a major chunk of the population. The impact was closer to 1.3% in terms of margin. And there is a smaller size of the population for which the increment will happen in Q2. So, that's a smaller impact. This is in terms of annual increments. In terms of the margin levers, if you look at the subcon substitution or improvement on scale or other productivity benefit there really is a lever which is kind of independent from a growth perspective. And even if you look at the last three quarters while growth has been stagnant or down, we've been able to drive a reduction in the subcon cost dramatically. Similarly, the other areas also which I mentioned, maybe accept a little bit of juniorization which probably needs to be supplemented with growth and the recovery in the second half as we look at it. The rest can be worked on as purely productivity measures that can help us as we think about margin expansion.

Moderator: Thank you. The next question is from the line of Ashish Agarwal from Sundaram Mutual Fund. Please go ahead.

Ashish Agarwal: So, most of my questions have been answered. Just want to understand one thing and as the Management aptly said that this was a perfect storm, but if we look at last six or seven years, we have three or four times where we have seen a double-digit EBITDA decline on a sequential basis on a Q-on-Q basis. Now how should we look at Tech Mahindra going forward as an investor given our portfolio of businesses, given our nature of business, do we see this volatility continuing over a longer term and what steps we need to take to make it a, let's say, a predictable or a boring organization going forward?

CP Gurnani: I like the word "boring organization". I think when we last met during our Investor Day in early April we have said these are the four things that we will do. #1, bring in an extraordinary focus on a few geographies, which included US. #2, we said we will grow Insurance, BFS, Manufacturing, Health Services a little more than the other industry verticals. #3, we said we will look at cocreation with some of our customers. We look at potential joint ventures with them to develop new service offerings or new niches. And #4, we had said we will be looking at reselling some of our service offerings as platforms. I think we are going to stay on this trajectory and obviously there is a need for us to become a lot more simplified as a structure. #2, there is a need for us to be a little more agile in terms of the way we run our own internal operations and #3, we probably need to permanently correct our pyramid. I know that Mohit is a little hesitant on being prescriptive right now, but he and I have been discussing it for the last 5-6 weeks. And in generally, the direction that we had committed to you during Investor Day, we just need to

get into that formula that I think I don't remember whether it was Rohit or Manish Vyas who had said "We know what we need to do, we just now have to get into execute, execute and execute" and I'm going to repeat that I don't know who the original author of execute, execute, execute and since Manish I'm willing to give you credit, let's get down to "execute, execute, execute".

Moderator: Thank you. The next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

Mihir Manohar: Congratulations to Mohit on joining TechM. Largely two questions. The first thing on the provision side, pertaining to bankruptcy. So, are there any more provisions going to come or have we provided them fully? Have we also considered the unbilled revenue part of it?. And my second question was just on the BFSI side of the thing, when we see our 40% of our business is largely coming from the CME vertical, now fundamentally the business itself, the global telcos have been challenging over the last four to five years and the current BFSI business which is there, it is more on the Asian banks side. So, just wanted to get an understanding of will US BFSI be an important part of our strategy, any color around that, that will be helpful.

Rohit Anand: So, maybe first on the provision side, on this case, we've covered all the risks that we have, both unbilled/billed everything so that's been taken care of. In terms of BFSI, yes, US will going to be a significant part of our strategy, it's a big opportunity and as we kind of look at our portfolio from the past where we were to where we are. Now, BFSI is more than 15% of our overall revenue base. We've grown it from where we were to now. We've identified significant gaps, both geographically as well as within the BFSI side where we don't play today. So, I think there's a clear articulation of that strategy internally. I think the focus will be for us to continue to drive those gaps of improvement, including a big focus in Americas as we move forward from a BFSI standpoint.

Moderator: Thank you. The next question is from the line of Abhishek Kumar from JM Financial. Please go ahead.

Abhishek Kumar: My questions to Mohit. Manish, you had said that there were cost take-out deals that were in discussion and probably towards the middle of the year those can fructify. Just wanted to understand how those have moved? Are we any closer to closing some of those deals and how would that change the growth trajectory in Telecom, if at all towards the latter half of this year? Thank you.

Manish Vyas: Of course, Abhishek. I think the deals are still in play. We are still in discussions at various stages. Some of these, as I said earlier, have been pushed out because they're evaluating all other options as well. But clearly from a vendor consolidation cost take out perspective, reformatting, how their tech workforce needs to be architected, all those discussions are underway at this point and they are all at the various levels of maturity in the funnel at this point and over the next two to three quarters, some of these deals will indeed impact the growth.

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

Dipesh Mehta: Two questions. First, just want to understand CME, if you can provide some detail on sub-segment where we are seeing more weakness and how do you expect that to play out over next few quarters? The second question is about top 10 client performance. If we look at the top 10 client fairly resilient whereas CME is very weak. So, typically CME used to have a higher client concentration and some of the clients were part of our top 10. So, if you can provide some more details about divergent trends between these two?

Rohit Anand: So, maybe I'll answer the second one first and then Manish, can add flavor on your first question. On the second one, as we've articulated before, inside the top 10 clients we were seeing some pressure in couple of our top customers in the last couple of quarters. And that we had said is getting closer towards bottoming out. So, that's happened, and we are seeing some positive momentum there. The closure of the projects that we mentioned in Network Services within CME were more outside the top 10 customers, one probably closer to the top 20 and the other was even below that. So, I think that's what is causing a reduction, which is leading to the decrease and then overall discretionary spend cut across the board beyond these couple of project closures which have one-time impact. Hence, you don't see that in the top 10, where it's more stabilized view now, we see more resilience there. Maybe Manish you can take up the earlier part of the question.

Manish Vyas: So, Dipesh, tactically speaking, while there are different customers who are at different points in time in terms of their transformation journeys where some projects for some people are still behind the curve, some have completed, and some are in the advanced stages. And I think it is too detailed to be able to articulate in a short while. But to answer your question, most of the trends that we see in terms of discretionary digital transformation spend as well as the cost transformation are pretty uniform across the major Tier-1 operators across the world. That said, while we are very well placed with many of these companies to continue to take advantage of their initiatives, we probably will go through some of these headwind days and quarters. The other aspect that played out this quarter like we said, were a couple of one-time cyclical issues that are part of our business. Hopefully, we'll be seeing all these behind us as we go forward from here. And maybe to provide a little bit more comprehensivity as a response to your question. I want to reiterate that the two areas where we saw a significant pushback was one is in the IT Digital domain and the other was in the Network Services where some of the re-prioritizations have happened. Geographically, I think it is pretty uniform at this point. I hope this was pretty elaborate for you.

Moderator: Thank you. The next question is from the line of Abhishek Shindadkar from InCred Capital. Please go ahead.

Abhishek Shindadkar: Thank you for the opportunity and welcome Mr. Joshi. I have two questions. The first one is last quarter we were saying spends related to 5G so on and so forth also some of the deals got pushed

off and maybe they could come in 2Q. If you can elaborate, we heard you about challenges, but anything specific that played out especially related to 5G that is what I wanted to understand. And the second question is for Rohit, on margins based on the portfolio we have today, can we assume that we have reached the bottom of the margins and a subpart to it, as you mentioned that the subcontracting expenses could be less than 10% of the revenue so is that the priority for current year or is it a priority over the next 12-18 months? Thank you.

Rohit Anand:

Manish, can you take the 5G question first and then I will take the margin one?

Manish Vyas:

I addressed the 5G question earlier. In terms of the watchfulness that has gotten into the mix of decision making as far as the 5G spend is concerned, which is part of the overall digital transformation spend so I don't think I can add any more color to that question. Let me answer the other part of your question first, which is what happened particularly this quarter in terms of some of the decisions that got pushed out. So, one is the Enterprise part of some of the major telco's businesses, we were expecting some of these deals to come through both in Europe as well as in US and these decisions have been pushed out because their enterprise business is going through a lot of organizational changes as we speak. These are specific to a couple of customers, but they are significant in terms of both our portfolio as well as the impact that they have on the Enterprise businesses for the industry as a whole. These things have been pushed out as a result, some of their decisions in terms of digital transformation and cost takeout have been pushed out. So, that clearly was part of the surprise element that happened and how that pans out over the next few quarters remains to be seen. But we continue to remain in a dialogue with each of these customers as we go forward. Broadly, I think I've already addressed in terms of what areas have seen a slow-down in spending and what areas will continue to remain pretty important as far as spending is concerned going forward. So, I just want to repeat that digital transformation is not something that they are stopping. They are just reprioritizing the various areas they want to focus on versus what they are doing today. That clarity as it emerges clearly will lead to a lot of decisions that will start happening in the second part of the year.

Rohit Anand:

And on the margin question from a subcon standpoint, we've reduced that from 16% to 14% over the last three, four quarters and will continue to work on it as we've articulated, our entitlement mark is getting to 10% and below. Given where we are, we will continuously drive that in the next few quarters to get to that level. And see that opportunity flow through from a benefit standpoint over the next 3-4 quarters.

Manish Vyas:

And Rohit if I may just add one more thing that that while we have had this challenging quarter, I hope we appreciate that this is at the back of 12 quarter-on-quarter successful growth quarters that we have seen. And the reason I'm highlighting that is just to acknowledge not just the support from all of you, but also from both our customers and our teams and partners who continue to put in that and believe that this business and the leadership position that we have in this industry is something that we are very confident will continue to serve as a great foundation as the industry per se transforms and comes back into a growth mode, I think your Company is in a pretty good position to take advantage of it.

- Moderator:** Thank you. The next question is from the line of Kumar Rakesh from BNP. Please go ahead.
- Kumar Rakesh:** I have just one more question on the margin side. So, the kind of revenue decline which we have seen would have started at the beginning of the quarter itself and Comviva seasonality, something which is quite well-known. But we don't see any cost intervention taken during the quarter to manage the margin. So, the revenue decline is largely understandable, most of the peers have also seen. But during the quarter, we have undertaken the wage hike of full impact. We went ahead hiring the sales and support staff. Our SG&A costs have also increased during the quarter. So, why was no intervention taken to manage the cost and what is giving us the confidence that now this is the bottom, and we should see a recovery from here on? Because the levers which you have highlighted are largely the same, which you have talked about earlier as well.
- Rohit Anand:** So, I think just from an action perspective, managing cost action did happen just when you look at the revenue drop, right, the revenue drop some of it is what we planned, right, like Comviva seasonality and some of the project closures that we envisioned, but the backfill of that from new deals or discretionary spends that got reduced or as we move more towards the latter half of the quarter. So, some of it is well known and some of it gradually happened in the quarter and cost actions did take place. If we see the IT headcount that's down to 1000 quarter-over-quarter. So, it's more driven towards the latter half of the quarter and will continue to action as we move forward, so that that is work-in-progress. In terms of sales and support headcount as I had articulated, those are campus hires for the leadership program that we have. Backing off from that isn't something we want to do. We want to continue, instead of backing away from that. So, that's what the increase you see, it's not adding to the sales headcount, etc., given they are declining.
- Moderator:** Thank you. The next question is from the line of Sameer from ICICI Prudential AMC. Please go ahead.
- Sameer:** If you think about an environment which we are currently in, the ability to monetize some of your levers like last two-three quarters you have been able to bring down subcon from 16% to 14%, now you are headed to 10%. So, how should we think about the pace of monetizing these levers, especially in an environment where we are facing a lot of headwinds in terms of discretionary cuts? And how does that change our margin goal, which we have set up in the Analyst Day that you have spoken about? That is first question. The second is that in an environment like this where a lot of these short-term projects are getting rolled off. And there's a lot of discretionary cut. Last six months TCV generally decides the revenue trajectory, which has been weaker for us. So, what gives you confidence that the growth may come back or this is kind of the bottom in terms of performance. Thanks for the opportunity.
- CP Gurnani:** So, Sameer, let me answer this with two broader strokes. One is what I have told my team is if he can't go for the sixers, go for the singles. Effectively, what it means is that sometimes when you go back to the basics with all your accounts and you are better prepared to listen to them for

all those smaller transformative Gen-AI kind of deals, all of that adds up. That's number one. Number two for the cost transformation, I would rather take a medium-term outlook than a very short-term outlook. Short term outlook is very simple, cut a few layers and you can right size it almost on an urgent basis. In a way this is also what I want to propose to Mohit Joshi and Rohit Anand. If we take a medium-term outlook, what will happen is that A) As I said I would go more aggressive on investing in young talent. That means we invested last year in Tier-2 cities why not take a target of 25,000 people in the Tier-2 cities in the young talent? Now that 25,000 people will become productive in the next maybe 6 to 8 months, I'm just giving a suggestion. I'm not saying we're taking a decision here, rather amplifying the word "*Medium-Term*". And as far as my existing staff, if I reskill them fast enough and if I focus on those short-term projects, I think I'll be able to optimize it for both the market demand. For the medium term I have no choice but to correct the pyramid and for that I have to take one shot at investing so that we permanently correct the pyramid. Otherwise, we have a challenge in our C&B cost compared to others in the industry and the only reason we have the C&B challenge is three factors – #1) onsite-offshore ratios, #2) subcons and #3) juniorization.

Moderator: Thank you. Ladies and gentlemen, that would be our last question for today. I now hand the conference back to the Management for their closing comments. Thank you and over to you.

CP Gurnani: So, thank you everybody. As I said we all know that we have faced one of our toughest quarters. But overall, I want to reemphasize Tech Mahindra is positive about its own outlook. We as a team have gone through some of these challenges in the past and we will rally together and as committed by many of my management team members here today, we will start improving our performance as we go along and the magic word is the same three words that I started the call with "Execute, Execute, Execute". Thank you, everybody. Thank you for your support and I need more support as the team repurposes and gets into the recovery phase. Thank you.

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