

Tech Mahindra Limited Sharda Centre, Off Karve Road, Pune - 411004, Maharashtra, India

Tel. +91 20 6601 8100 Fax. +91 20 2542 4466

techmahindra.com connect@techmahindra.com

5th May, 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 and year ended 31st

March, 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 and year ended 31st March, 2023 conducted after the meeting of the Board of Directors held on 27th April, 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 Q4 & FY '23 Earnings Conference Call"

April 27, 2023





MANAGEMENT: MR. CP GURNANI – MD AND CEO

MR. MANISH VYAS – PRESIDENT (COMMUNICATIONS,

MEDIA AND ENTERTAINMENT BUSINESS) & CEO,

NETWORK SERVICES

MR. ROHIT ANAND - CHIEF FINANCIAL OFFICER

MR. BIRENDRA SEN – BUSINESS HEAD – TECH

MAHINDRA BUSINESS PROCESS SERVICES

Mr. Jagdish Mitra – Chief Strategy Officer

AND HEAD OF GROWTH

MR. VIVEK AGARWAL - PRESIDENT - APJI

(ENTERPRISE), BFSI & CORPORATE DEVELOPMENT

MR. HARSHVENDRA SOIN - GLOBAL CHIEF PEOPLE

OFFICER AND HEAD MARKETING

Mr. Lakshmanan Chidambaram (CTL) –

PRESIDENT – AMERICAS (ENTERPRISE BUSINESS)



Moderator:

Ladies and gentlemen, good day, and welcome to the Tech Mahindra Limited Q4 FY '23 Earnings Conference Call.

As a reminder, all participants' 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 – MD & CEO for Tech Mahindra. Thank you, and over to you, sir.

CP Gurnani:

Thank you. Good evening to all. I am really happy that FY23 has proved to be yet another year of double-digit growth and particularly proud that our large deal wins have been about \$3 billion. I'm also very happy that CME, despite all the challenges has continued to grow for 12 quarters in a row.

On the Enterprise side, we have touched a billion dollar quarterly run rate which means really a billion-dollar businesses have been built in BFSI and Manufacturing and also very happy that the technology investments, upskilling investments your company has made on Quantum Computing Metaverse, on Blockchain, Web 3.0, Cloud and the Customer Experience Management are yielding good results.

We continue to be focused on making our customers successful and we do believe that while the global economic outlook continues to be little uncertain, the macro indicators and the actions of the monetary authorities impact because of some of the regulatory or the policy decisions taken is resulting in some of our customers slowing down for the time being, but I know if our customers are cautious, we need to be cautious, but the other way of looking at it is that Tech Mahindra as a company has always believed that never waste a crisis and we would like to double up our investment in people upskilling, we want to double up our investment in technology, we want to double up our investments in prioritizing a few markets like Japan or Middle East because we generally believe that there will be more large deals because our clients will eventually want to move to new platforms, would want to move away from legacy to digital and I think this economic downturn will force the decision making, particularly from legacy to digital.

So as my clients adopt new technologies, they look at how they will meet some of their customer demands, Tech Mahindra will be ready alongside our clients to become agile and relevant for the next few quarters.

My personal belief is that this phase is temporary, and we will see a recovery within FY24 and hence I remain more determined to be aligned with our customers, be aligned with our partners, and deliver value and more technology benefits.

Tech Mahindra Limited April 27, 2023

TECH mahindra

Just a quick recap on the numbers:

FY23 constant currency 13.7% growth.

Margins, yes, they've been under pressure, but as I said if you look at investments, if you look at the potential for us to look at certain operating efficiencies, particularly on automation, I think there are enough operating levers for us. We do believe that because Tech Mahindra has invested a lot in quantum and in AI, we are looking at predictive technologies, data sciences, cloud in a much bigger way. My belief is as we adapt it to our existing projects, we should be able to bring out some of the efficiencies.

In general, the Q4 Earnings, I know Rohit will cover in detail but on an annual basis closing the year with US \$6.6 billion of revenue. For this quarter, the large deal is at US \$592 million but as I said last year, we did US \$3 billion, and we will do a lot better this year because our clients want to take some big decisions. They may have a little bit of hesitancy right now but eventually looking at improving their own utilization also.

On the dividend side, our capital allocation policy is consistent. Capital allocation is if we have extra cash, we will return it. So, our board has agreed to a recommendation of a final dividend and the total dividend now becomes Rs. 50 for the year.

So, I again want to repeat to me that the soft environment is an opportunity and Tech Mahindra is geared for that opportunity through our own investments in technology and automation.

So again, thank you for all your support. Thank you for being with us during this tough time or softer times but I do promise you that the company is a lot better engaged and a lot better engineered for both growth and profitability.

I'm joined with my colleagues Manish Vyas. Jagdish Mitra, Vivek Agarwal, Harsh Soin, and CTL so we will have a free-flowing debate but before we start with the question and answer, I'm going to request Rohit to take you through the numbers a little more in detail.

Thank you again. Thank you everybody.

Rohit Anand:

Thank you, CP. So good evening to everyone.

Let me now cover the company financials for the Fourth Quarter and the Year Ended 31st March 2023:

We ended Q4 with a revenue of US \$1,668 million, marginally up compared to Q3 constant currency.

CME vertical grew 1.8% QoQ on a CC basis, while Enterprise vertical decreased by 0.7% cc.



Our deal wins were at US \$592 million for the quarter and revenue in rupee terms was Rs. 13,718 crores versus Rs. 13,735 crores in Q3, down 0.1% QoQ.

The EBIT for the quarter was at US \$186 million versus US \$200 million in Q3. The EBIT margin of 11.2% versus 12% last quarter. The reduction of 80 basis points was largely contributed by currency impact of 60 basis point, SG&A impact of 90 basis points and these were offset by productivity actions that we had articulated in the past that we've been working on, namely around subcon reduction which gave us the tailwind of 70 basis points.

Moving below EBIT – Other income for the quarter was US \$37 million. We had a FOREX loss of US \$1 million compared to a gain of US \$15 million in Q3. There was a one-off impairment cost of US \$26 million in Q4 which was reported in the financial this quarter. We continue to follow from an FX perspective a rule-based hedging policy which has helped us deliver good results over a long-term period and we will continue to follow that as we move forward as well.

From a tax rate perspective, we were at 26.2% for Q4 versus 27.4% for Q3. As we have said before our normalized ETR for the year is in the range of 25% to 26% so that continues to be the band.

The net profit margin for the quarter was 8.2%, a decrease of 120 basis point versus Q3. Free cash flow was US \$142 million, which was 104% of PAT.

Our DSOs have reduced by 2 days to 96 Q4 versus 98 in Q3.

Moving on to the full year performance:

Revenue stood at US \$6,607 million with a constant currency growth of 13.7%. In rupee terms, our revenue was Rs. 533 billion, a yearly growth of 19.4%.

During the year, Communication business grew as I mentioned, 13.4% and Enterprise grew 13.9% in CC terms. Within Enterprise – Technology, Retail and Manufacturing were the major growth drivers for the year.

We ended the year with an EBITDA of US \$990 million and an EBITDA margin of 15.1%. The EBIT for the full year was US \$747 million and an EBIT margin stood at 11.4% versus 14.5% in FY22. This decline of broadly 300 basis point was driven by:

- Headwinds due to wage inflation that we saw on the supply side, more aggravated towards the first few quarters versus the last quarter.
- SG&A, travel costs with some of the normalization post-COVID increasing year-onvear.
- Some of the deal M&A related cost that we had articulated before around 50 basis points.





 Then the large deal cost where the ramp up in the initial phase of large deal reduces and the recovery or the efficiency happens in later years so that was around 70 basis point.

The offset for the year were driven by pricing, we had communicated at the beginning of the year that we will target close to 1% of expansion due to price and that is what we've delivered close to that number. From a subcon perspective, we've had a reduction, so hence that has contributed 80 basis point and then we continue to drive more offshoring. That has helped us give a benefit of 30 basis point.

Going below the EBIT line:

Other income for the year was US \$119 million. Other income year-on-year was lower because of lower FOREX gain compared to last year. When we look at our hedge book, it was US \$2335 million with a mark-to-market gain on outstanding covers as of 31st March 2023, being US \$13 million. Based on the hedge accounting treatment, a gain of US \$4 million has been taken to the P&L while the US \$8.9 million residual has gone to reserves.

Free cash flow for the year was US \$497 million which was 84% of PAT conversion.

DSO year-on-year went down by 1 day.

Cash and cash equivalent at the year-end stood at US \$905 million and in INR terms Rs. 7,435 crores.

In line with our commitment to prudent capital allocation as CP articulated, we continue to return cash to shareholders. The Board as per our recommendation has approved a final dividend of Rs. 32 per share, taking the total dividend for FY23 to Rs. 50 per share, which is an expansion from last year by close to 11% from Rs. 45 a share. This translates to a dividend payout ratio of 91% for FY23.

In summary:

I would like to reiterate, that our execution strategy is focused on portfolio synergy, operating rigor, and people transformation as we move into the next fiscal.

With this commentary, I will open the floor to questions and with all the Leadership Team, we'll take each question one by one.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Abhishek Bhandari from Nomura. Please go ahead.

Abhishek Bhandari:

Rohit I had a question on the low margin performance for Q4 and the path going forward. Now if you could help us explain what happened on the SG&A part that there was such a sharp





increase and if I look at your commentary since the start of the year and also in your Analyst Meet, the visibility on you recovering back to the FY22 margin towards FY23 seems to be very heavy, so if you could help us understand now how should we think about margin expansion from here and Q4 particularly SG&A what happened?

Rohit Anand:

From an SG&A perspective, I will just answer the Q4 first. From an investment perspective, we continue to invest, from a business process perspective and system perspective, we are taking a longer-term view here so that continues. We did have some year-end cost which was skewed; then that will get normalized as we move into the next year. I think our view is that SG&A as a percentage of revenue should be in the band of around 13.5% for us so that should get normalized. When you look at the future view in terms of margin, right as we move from here as I had mentioned in the Investor Meet also in March, I think the levers are the same for us and we've delivered in the current quarter as well. If you look at the direct cost aspect, we said that subcon will be something that we'll keep on working on and that you'll see a dramatic reduction there. We will continue to work on 4-5 levers as we said earlier. I think our large deals will get a little bit more maturity in terms of where they are to where we want them to be next year so that's one lever. Second, we had articulated we still have almost 4% to 5% improvement opportunity in our offshoring rates versus where we are today so that will continue to drive. We also said that we will continue to drive pyramid rationalization and that's an investment we are going to make in FY24. We also said that we will take some structural action to divest or stop and cease some non-profitable or low-profitable businesses, so we did some actions last year and we'll continue to execute on the pipeline we have to expand margins on that front as well. And then within subcon as well, while we continue to reduce it, we'll also drive better margin mix there by improving the mix. So those are a few actions that we will continue to drive as we move forward and. I think directionally our commentary is the same that we have more opportunities to continue to expand it. Obviously, the macro environment in the last two quarters and as we look at the next two quarters is different than what we've seen in the beginning of the year. And our view is as we move into the second half, it will get better again to where we were. So, in terms even macro first half will be more cautious versus the second half.

Abhishek Bhandari:

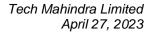
So, if I can understand it correctly, the margin improvement for FY24 is contingent on a better second-half of FY24.

Rohit Anand:

I would say margin improvement will be irrespective of the view that we will go for but when we look at our demand scenario and our overall macro environment vis-à-vis the verticals and all the mix that we have, second half in our view gets better than where we were in the first half but that's not the basis on which we will drive our margin action.

Abhishek Bhandari:

Second and final question is on your Top 5, client outlook, while you had already signaled it in last the quarter that the Top 5 clients might remain soft for some more time. if you could help us understand, how should we think about this bucket going into FY24? How long do you think the decline in this particular thing will continue?



Rohit Anand:

I think as I mentioned it is bottoming out as we speak. There are certain plus and minus there but generally the trend is seems to be stabilizing and as we move forward, while I can't share any customer specific information, but we've had majority of the impact should be towards the fag-end of that.

Moderator:

Thank you. The next question is from the line of Sandeep Shah from Equity Securities. Please go ahead.

Sandeep Shah:

This is a second quarter in a row where constant currency growth is like a flattish and Rohit you also mentioned that the first half would be cautious. So how do you see FY24 in terms of the growth rates? Will it be second-half heavy, will it continue to remain tepid in the first half, despite you believe the Top 5 client specific issues are largely behind. So how do you expect there would be a growth bump up from the last two quarters in the first half itself or you still believe the first half would be cautious and growth revival would be only due in the second half?

Rohit Anand:

As I mentioned while I won't give a number or a guidance, but directionally that is true I think the headwinds that we've seen from a growth perspective when you compare our second-half this year versus the first half. From headwind perspective macro side, the trend in our view and looking at our mix customers, verticals, all that our view is that trend continues in some form or shape for the first half. The pipeline is still robust right across the segments, there are good deal discussions happening, there's a mix change in terms of deals dynamics also, but from a pipeline discussion perspective, it's quite favorable overall, right, But the trend wise, yes, first half versus second half is kind of the reverse mirror reflection of what we saw last year as of the current view. And as we move forward, we keep on updating you on what changes are we seeing across industries vertical and geography, but I can also request Manish is here. We've got Jagdish and Vivek; they can add some flavor on their side of the business to give you their perspective as well.

Manish Vyas:

Thank you, Rohit. I just add that the broad sentiments continue to remain. The investments from a tech standpoint, I think remains a top priority for most of the customers that we talk to. Either it is to find operational efficiencies or to continue to modernize. What clearly happens in uncertain times like these and some of that story is playing out in the second half of the last fiscal is some of the discretionary spend and the transformation projects they do go through another added lens of evaluation before the money is released. So that's what we are seeing at this point in time and that of course sometimes has an effect on OPEX as well. We do believe that as things become more certain, the second half of the fiscal, I think we'll start seeing the positive upswing and some of the large deals that we are pursuing now, as some of them have got delayed from a decision standpoint, they nevertheless remain extremely important for each of these customers to decide at some point. It could be a month; it could be sometimes more than a month. As those decisions manifest, I think it will start translating into revenues towards the second half of the year. I hope that helps you, Sandeep.

Sandeep Shah:

And commentary on Enterprise.



Jagdish Mitra:

Jagdish here. I think similar, in terms of behavior. The digital transformation journey as we all recognize is a train that's definitely not stopping and it's a lot of demand in the customer base of what to do in terms of bringing transformation at different levels, So even cost peak out is ultimately leveraging these technologies which CP talked about where we've invested in and we're starting to see a lot of engagement on that, whether it's AI, whether it's data analytics, whether some of the work that we're doing in Quantum, etc. Pretty similar to what Manish said, decision making is going to be prolonged. People will look at it multiple few times. The conversations are there and obviously mode of the discussion is towards cost takeout related deal structuring and transforming their core functions, whether it's supply chain, whether it's back-office operations so and so forth and it's pretty uniform across enterprises industry verticals, some little more than the other but more or less the good part of it is the tech conversations and the transformation conversations continue. So, we are confident and bullish that the transformation journey is definitely not slowing down.

Sandeep Shah:

OK. And just to follow up in this outlook for growth, which may be tepid in the first half, how do we see wage hikes and timing of the wage hikes? Will it fall into place by Q1-Q2, which we generally do as a whole or there could be some delay in the same?

Harshvendra Soin:

So, this is Harsh and thank you for asking that question. Like we have done in the past we continue with the same strategy of staggering the hike suitably as we view quarter-on-quarter, so we'll follow the same strategy this year too.

Sandeep Shah:

So, it would be across four quarters of FY24.

Harshvendra Soin:

We will stagger it. We don't know if it will be for two quarters or four quarters, but we'll stagger it for sure.

Moderator:

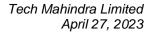
Thank you. The next question is from the line of Sudheer Guntupalli from Kotak Mahindra Asset Management. Please go ahead.

Sudheer Guntupalli:

One of our competitors saw a sharp decline in Communications and thereafter the expectation was that we should see a sharper impact given our concentrated exposure to this vertical and some of our top clients are from this vertical. However, your Performance in communications is fairly defined So what is driving the optimism that top account issues are still bottoming out or close to bottoming out? Is this being led by the fact that we had already gone through a longer period of softness in this vertical and accordingly, you think a lot of it is already in the base?

Manish Vyas:

On the contrary, I think you heard in the opening comments, and I think I've also been saying it for some time, we have actually seen a consistent growth in the Telecom vertical now for the last three years. I think this is a quarter of celebrating a few interesting important milestones in our lives. We did say and give all of you an early indication on 3rd of March that we should be getting too close to a billion-dollar run rate as far as our 5G business is concerned and as you know we invested mostly organically in capabilities, solutions across the broad range of the 5G





spectrum from software, to services, to integration, to test to manage services automation included, all of that has translated indeed into that billion dollar number that from a run rate standpoint that we have hit. The other very interesting and important I'm sure all of you would recall that back in the days 2015, I'm taking you 8 years back, we did invest in LCC and that didn't play out that well at the time, but we have been consistent in saving that our commitment as a technology agnostic independent integrator and managed service provider to the networks, both carrier and enterprise network, I think it's a huge differentiator for your company - that's also played out extremely well. While we don't break the business unit numbers often. But at this point I'm happy to report that it's seen one of the fastest growths. It should be close to a billion dollar by the end of this year as far as our network business is concerned. I don't know whether you call it optimism or our strong belief in this industry vertical, it's largely because of the support that all of you have provided in continuing to invest and becoming the market leader in this space with the wide margin. As far as Telecom is concerned, there is not a single telecom service provider in every market that we want to operate in that we do not serve today. So now granted that one quarter or two or a little uncertain at a macro level does not define our presence, our strength, our investments, and our performance in this sector. I think from a long-term standpoint, I wish I had a crystal ball to say whether it will be third quarter or fourth but I definitely can say this that from a mid-term to long-term standpoint, the discussions that we are having with this sector are absolutely all time best and I don't think we need to be concerned about that.

Moderator:

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

Girish Pai:

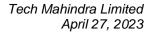
You mentioned that theirs is probably be a pickup in growth in 2H, what is it optimism based on? Is it based on some client conversations you've had or is it merely hope?

Rohit Anand:

So maybe overall I'll say that the pipeline is quite robust from where we were last year so I think that is first ray hope, if you will. Second is client conversations which Manish just mentioned which is what it's saying that is quite positive. There is a slowdown in terms of decision making, which is what we were saying that there are more approval cycles and hence the final sign-off is taking time which is what we're kind of cautioning out from a first half perspective. We'll continue what we've seen in the second half of this year. But from an industry perspective, if you look at cloud penetration is still low. In Communication, 5G penetration is still a lot to desire for, and AI work is just starting right. So, I think Data Analytics on top of cloud, all that from a technology penetration standpoint, when you look at all the metrics is positive. So, one-two-three quarters really doesn't define the long-term trajectory that the business has to offer and that's what gives us the optimism including the discussions we've had and maybe some of them just in the recent past that Manish, Vivek, Jagdish have had, maybe you can elaborate some examples.

Manish Vyas:

The only thing I would add to this and we may have mentioned this earlier, this is not the first time this story is playing out in this tech industry theater where we have seen these pressure





points and the decisions that typically get made are around modernization, around transformation, around cost take out and those conversations have begun now. Like we said, we can't really predict whether these decisions will happen in six months or eight months, but they will happen at some point in time. It's also not a function of hope, but definitely a function of the business that we have at this point in our conversation if that answers your question.

Girish Pai:

Just a last one, what's your view on pricing in FY24? I believe you did get some price increase in FY23, how you're looking at that in 2024?

Rohit Anand:

We'll have some carry forward impacts from last year to this year that will flow through of the impact of Q2-Q3-Q4. But incrementally, while we continue to drive those conversations, there are opportunity on where we should be versus where we are is there. But on a broad-based perspective versus last year is going to be quite limited as an opportunity. I would say we would continue to work on proactively providing solutions to our customers and we are right now focusing ourselves to be very close to defining how they look at the future and hence, positioning ourselves on driving efficiency outcomes for them, which gives us opportunity to get more business as well as expansion with the same customers, hence the cost of acquisition and other efforts goes down to improving the productivity from a business standpoint. So that's kind of what we'll drive and the pricing as a lever is going to be limited this year versus last year.

Moderator:

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

Manik Taneja:

I had a question with regards to the way our headcount essentially has been coming off through the course of last couple of quarters and on the IT, services side has been declining for the last three quarters. So how should we be thinking about our optimization around pyramid in the context of the fact that our headcount has been coming off for the last three quarters alongside utilization almost running close to the peak levels.

Harshvendra Soin:

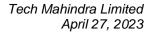
This is Harsh and thank you for asking that question, Manik. So, if you notice that our internal fulfillment rates have increased substantially. In fact, we've gone up from about 46% to about 71%. Clearly, our focus, as we stated in the last quarter also on upskilling and giving opportunities for within has really worked out. Now add to this the fact that our attrition is also the lowest in our peer set gives us a lot of confidence that the strategy is working, and folks are getting more opportunities internally. So, we don't have to go out for every single vacancy. I think that's a good sign for the organization going forward.

Manik Taneja:

Given the fact that you expect first half to be relatively subdued, should we expect that the deal wins number will also remain below the typical range that we are targeting?

Rohit Anand:

We won't give a guidance specifically on a number, but I think from an overall year perspective CP also commented that and Manish added to the comment that the discussions are quite favorable and encouraging and hence from a yearly basis, if we look at the year versus last year,





we feel that as it moves today and what the quality of those discussions are, we should not be far off from where we're lasts year.

Moderator: Thank you. That was the last question for today. I would like to hand the conference over to Mr.

Rohit Anand for closing comments.

Rohit Anand: Thank you. I just want to reiterate that as a Company as we have committed in the past, we'll

continue to drive towards the goal of driving productivity. We will continue to expand margins that we have communicated to you. We will continue to provide return to shareholders. We have returned back Rs. 50 share this year and which is an 11% expansion from last year which is as per our capital allocation policy. As a Company we just continue to our goals of driving growth, margin improvement from where we are today and then capital return. So, with that we'll move

into the next year with those goals in our mind and thanks everybody for joining us for today's

call.

CP Gurnani: I just wanted to reassure all the analysts and investors that the Company is conscious of some of

the macro challenges, but I think we are in a better position to address some of these challenges and that old saying that "opportunities are best discovered during the crisis" and the Company

is geared up to take advantage of the crisis. Thank you so much everybody.

Moderator: Thank you. Ladies and gentlemen, on behalf of Tech Mahindra Limited, that concludes this

conference. We thank you all for joining us and you may now disconnect your lines.