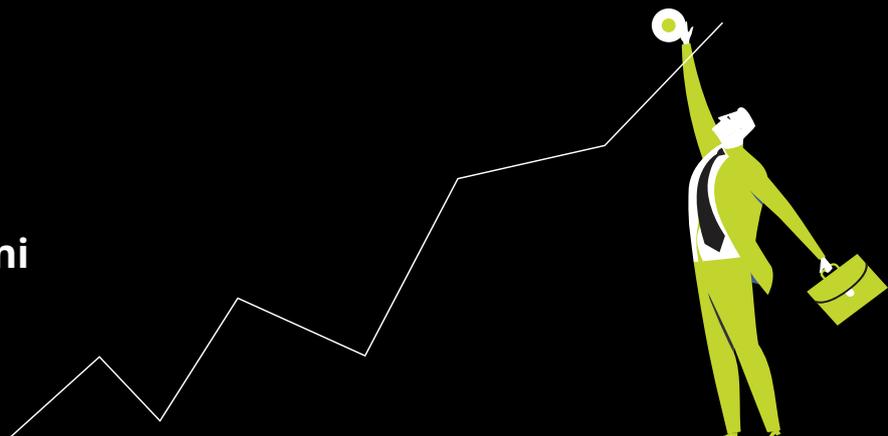




CFO Speaks



Mr. Milind Kulkarni
CFO
Tech Mahindra Ltd.



1. In the current economic scenario, what is your perspective on the Indian IT industry and its growth trajectory in the next 2-3 years?

Indian IT industry has experienced a double digit growth. However, this growth has currently slowed down and we do not see any quick resolution to it. The growth in USD last year was 8% and this year it is forecasted to be around 7%. Similarly, we expect single digit growth, i.e. 7% to 9% in next 2 to 3 years as well, and this is primarily because of the following reasons:

01. Pattern of demand is changing and demand is rapidly shifting from traditional services to digital. International players like Accenture are leaders in Digital & Indian IT industry is fast catching up, but it will take 2 -3 years to scale up its digital play.
02. The protectionism wave in some of the developed countries around the world is also impacting the business. e.g., the US rhetoric against outsourcing has resulted in new deals significantly coming down. Similarly, Australia and Singapore have imposed immigration restrictions.
03. Apprehension about Border Adjustment Tax to be introduced by the US has adversely impacted US outsourcing since if introduced, this would further increase the cost of outsourcing for US corporations.
04. The continuous depreciation of INR in the past 2 decades has helped Indian IT industry to be competitive and win market share, but reversal in the trend and appreciation of INR in the last one year, means loss of competitive advantage as cost arbitrage narrows down.
05. There is also impact of base effect.

Considering these factors, we foresee slower growth in the

coming years. In the current scenario, we need to think and act differently for achieving double digit growth.

2. What is the impact of global and regulatory policies on the IT industry? How has the business been affected?

We have witnessed introduction of restrictive immigration policies by many developed countries which has adversely impacted Indian IT business. Also, the changes in tax regime of various countries, like aggressive Transfer Pricing and BEPS, has also slowed down Indian IT growth.

In few countries, like Australia and Canada, the tax authorities have become very aggressive on tax matters, and due to this the business attention gets diverted to tax and regulatory issues and therefore, the core business suffers. For example, in Australia the Indian IT companies are facing litigations, wherein Australian tax authorities are claiming that the profit earned in India by Indian IT companies is taxable in Australia, which we have never heard before.

If Border Adjustment Tax is introduced by the US, it would severely impact Indian IT industry.

3. Tech Mahindra has made significant acquisitions and JVs in the recent past. How challenging has your journey been as a CFO?

As a CFO, it is important to do due diligence before the acquisitions or forging JVs. Internal experts and external professional expertise help us in in due diligence. I personally believe that the real challenges begin post the acquisition, when it comes to integration, more so when the acquisition

is completely onsite centric and it has operations in many countries. **"It is about integrating people, practices and the culture"**. The difference in mindset brings in a cultural gap and the language barrier adds to it. We have done successful large acquisitions in India, and a number of acquisitions in other countries as well.

For example, we acquired a networking company outside India two-and-half years ago which is completely on-site centric with operations in 40+ countries. The companies outside India are happy with single digit margins, but the investors in Indian IT companies are used to and expect 20%+ margins.

A few years back we acquired in South America, apart from the cultural gap, language was a major issue which increased the integration challenge.

To conclude, I would state that the bottom-line is to keep the investors happy, we need to be really selective about the acquisitions we do and pay a price which is fair. At a time, when business growth slows down and when technologies are changing rapidly, we need to do more acquisitions to accelerate growth and gain market share.

4. As a CFO, how do you foresee the future revenues with the shift in demand from traditional IT services to new age IT services, like digital?

Over the years our share of digital business is growing and last quarter it was ~ 22%. In the next 3 years it should reach around 35%. This change is due to digital segment growing faster than the traditional business and Indian IT companies are catching up fast with their international counterparts. In the current scenario, the traditional business is under immense pricing pressure wherein, every customer renewing the order is looking at 20% to 25% saving. Also, we see that the volume is coming down in the renewal of traditional business. Hence, in the coming 3-4 years, share of digital will rise for the Indian IT industry.

However, I feel in the Indian market, shift to digital is still gradual.

5. With technological advancement, cyberattacks are also becoming larger, more powerful, and more prevalent. Being a CFO of an IT company, what measures do you take to mitigate these risks?

We have been lucky, besides being prepared not to have faced any cyber issues till now. We have taken following measures to ensure the safety of our systems:

- We have our own cyber security experts to tackle the safety issues. In fact, moreover this is also one of our business line. Our systems are developed to handle the vulnerabilities.
- Further for anyone who joins us, he has to undergo basic security training and it is mandatory for all our associates to clear the certified security exams every year.

Lastly, we have taken adequate cyber security cover, on any untoward incident. But as a CFO, I am happy to let go of the premium by not making any claim under the policy. We always have to be cautious as hackers are getting smarter each day and this is their only business, whereas we have other businesses to do. I believe, risk is always there, but one has to remain alert. Any amount incurred to secure our systems is never a cost, rather it is an investment towards a secure future.

6. In coming years, what areas of the CFO role you think will be the most affected by technology? And, in your view, is the role of CFO changing from traditional operations (steward) role to more towards growth and strategy (strategist) of the organization?

It is very clear that transaction processing and accounting are getting automated, and the time CFOs spend on these activities has substantially come down. In the next few years, these activities will get further automated and CFOs will play very little role in the adoption of new accounting standards which are increasingly getting complex.

I. Participation in decision making process will gain importance for the CFOs rather than the traditional CFO role of only being an information provider. With advent of Artificial Intelligence and Robotics, systems are able to generate smarter reports and it becomes important to interpret these reports for making purposeful business decisions.

II. CFOs will spend more time on Corporate Governance issues, with compliance always being at their forefront. It is important to meet stakeholders' expectations under the stipulated regulatory environment and ethical issues are of prime importance.

III. Tax management will become an integral role of CFO as tax authorities are becoming more and more aggressive. It is more relevant when the business is global, for e.g., we operate in more than 90 countries and it becomes increasingly important to avoid any unnecessary tax dispute. These disputes lead to diversion of management's attention apart from the litigation costs and high tax incidence. Therefore, tax planning is important for the CFOs.



Expert Views

Artificial Intelligence - Next "bold play"

Artificial intelligence is defined as "the theory and development of computer systems able to perform tasks that normally require human intelligence, such as visual perception, speech recognition, decision-making, and translation between languages."

A new update to the Worldwide Semiannual Cognitive Artificial Intelligence Systems Spending Guide from International Data Corporation (IDC) forecasts worldwide revenues for cognitive and artificial intelligence (AI) systems will reach \$12.5 billion in 2017, an increase of 59.3% over 2016. Global spending on cognitive and AI solutions will continue to see significant corporate investment over the next several years, achieving a compound annual growth rate (CAGR) of 54.4% through 2020 when revenues will be more than \$46 billion¹.

Organizations across industries of the economy are using cognitive technologies in diverse business functions.

- Applications of **machine learning** are very broad, with the potential to improve performance in nearly any activity that

generates large amounts of data which needs to be analyzed and used for predictive models. While a significant effort is being spent in financial services around Fraud, Risk and areas such as KYC and AML, we are also seeing applications in sales forecasting, inventory management, oil and gas exploration, and public health.

- Applications of **natural language processing** often address relative narrow domains such as analyzing customer feedback about a particular product or service, automating discovery in civil litigation or government investigations (e-discovery), and automating writing of formulaic stories on topics such as corporate earnings or sports.
- **Computer vision** has diverse applications, including analyzing medical images to improve diagnosis, and treatment of diseases; face recognition, used by Facebook to automatically identify people in photographs; in security and surveillance to spot suspects; and in shopping - consumers can now use smartphones to photograph products and be presented with options for purchasing them.

Key benefits of Artificial Intelligence

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|---|--|
| Decreased cycle times Faster execution, 24/7 availability | Detailed data capture Tasks monitored and recorded, audit trail |
| Improved accuracy Minimal human error | Flexibility and scalability Flexible virtual workforce, scalable |
| Improved productivity Focus on higher value | Reduced operational costs Capacity/FTEs release |

Why businesses need to pay attention to artificial intelligence?

Understanding how to obtain the maximum benefit from Artificial Intelligence and cognitive technologies requires careful analysis of an organization's processes, its data, its talent model, and its market. Use of cognitive technologies is not

viable everywhere, nor is it valuable everywhere. In some areas, it will become vital. We think the greatest advantage of cognitive technologies is its potential to create value, going beyond cost optimization. And we believe that for most organizations and most applications, cognitive technologies will restructure work and make it more efficient, perhaps restraining the growth of jobs in certain areas, but creating jobs in newer areas.

To access the full report please [click here](#)

¹ Source: Worldwide Semi-annual Cognitive Artificial Intelligence Systems Spending Guide, IDC





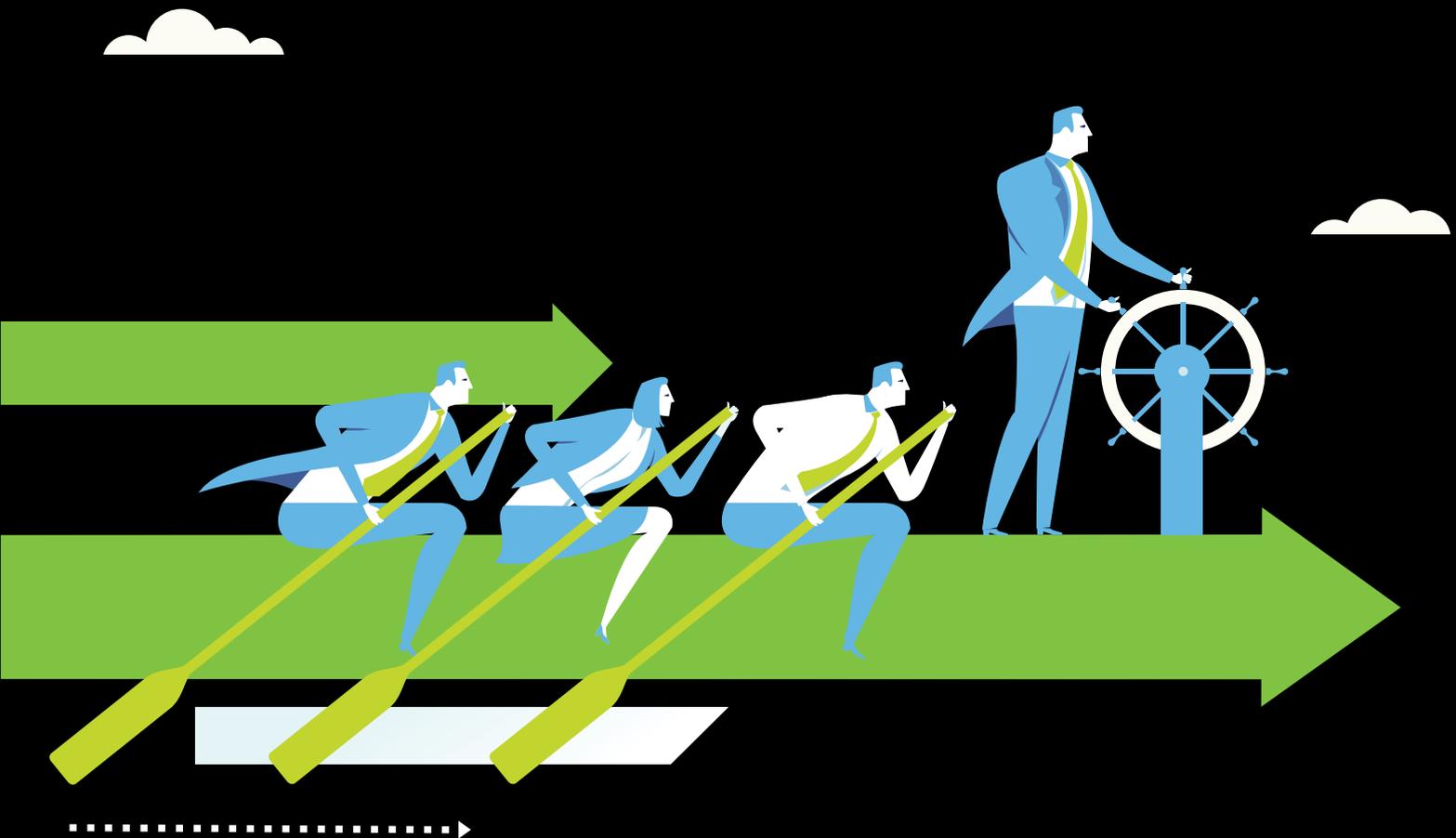
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career – helping CFOs manage the complexities of their roles, tackle their company's most compelling challenges, and adapt to strategic shifts in the market.

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