Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Third quarter ended December 31, 2014 (Q3 FY2015)

January 27, 2015

Welcome to possible

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mindtree Limited Q3FY15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr.Sushanth Pai. Thank you. And over to you, sir.

Sushanth Pai: Thanks, Shyma. Welcome to this Conference Call to discuss the Financial Results for Mindtree for the third quarter-ended December 31, 2014. I am Sushanth from the Investor Relations team in Bengaluru. Before we start the proceedings, I would like to wish you all a very happy and prosperous 2015.

On this call we have with us senior management team,

N. Krishnakumar – CEO & Managing Director;
Parthasarathy N.S. – Executive Director and COO;
Rostow Ravanan – Executive Director and CFO; and
Gaurav Johri– Head of BFSI.

The agenda for the session is as follows:

Krishnakumar and Rostow will begin with a brief overview of the company's performance, after which we will open the floor for the Q&A session.

Please note that this call is meant only for the analysts and investors. In case there is anyone from the media, request you to please disconnect as we just concluded the media briefing before this call.

Before I hand over let me begin with a Safe Harbor statement. During the course of the call, we could make forward-looking statements. These statements are considering the environment we see as of today, and obviously, carry a risk in terms of uncertainty because of which the actual results could be different. We do not undertake to update those statements periodically.

I now pass it on to Krishnakumar.

Krishnakumar Natarajan: Thanks, Sushanth. Let me also add my best wishes to all of you for a happy and successful 2015.

Q3 revenue was $147.7 million, a growth of 0.44% q-o-q and 16.2% y-o-y. On a constant currency basis, growth was 2% quarter-on-quarter. In line with what we had indicated earlier, seasonality impact which led to lower working days, leaves and some bit of delays in decision-making by clients were the reasons for this marginal growth.

Other highlights of our Q3 results are as follows:

- Amongst verticals, BFSI grew 3.5% and Retail, CPG, Manufacturing grew by 2.9%.
- Amongst service lines, Engineering grew by 10.5%, Package Implementation by 7.8%, IMTS declined by 5.4%, out of which cross-currency impact was 2.1%. Also, for an IMTS client the cloud build out phase was completed and the operational phase was moved to a local partner in this quarter due to regulatory issues in that geography.
- Amongst geographies, US continued its strong growth, with 4.9% q-o-q growth; Europe declined by 6.5%, out of which cross-currency impact was 4.8%.
- We have 201 active customers. I am happy to state that this quarter marks the beginning of one of our clients moving into the $50 million category. $1 million clients grew by 6 to 83.
- On the attrition front, LTM attrition has increased to 18.1% from 15.7% last quarter. It is a cause for concern and we are working on various initiatives and we see this trending down in Q4.
- We have 13,323 Mindtree Minds reflecting a gross addition of 1,016 Minds in this quarter.

Now, some points on outlook for Q4:

- We had signed orders worth $152 million in Q3, out of which renewals are $106 million and new orders were $46 million.
- We expect Q4 to be better than Q3, mainly due to better volume growth due to lack of seasonality and we are confident that we will comfortably exceed the upper end of NASSCOM guidance of 13-15% for financial year 2015.

In this quarter, we have one more important update to share. We have shared with you that our strategy that really lead us to inorganic options and today we are happy to announce that Mindtree has acquired 100% equity interest in Discoverture Solutions, LLC, a leading provider of property and casualty insurance solutions based in the US. This is an all-cash transaction of $15 million payable over 18 months and earn outs based on future revenue target. Key highlights of this deal are as follows:

- This strategy acquisition will extend Mindtree' s leadership in the P&C Package Solution Implementation market and accelerates our journey to be amongst the Top 3 service providers in the global P&C services industry. The P&C package Professional Services market is estimated to be between $1.2 and $1.5 billion.
- This acquisition will add 15 marquee clients and 300 experts across US, UK, Canada, and India.

- The customer overlap is minimal and hence it creates possibilities of bringing new solutions to a broader set of customers and cross-selling opportunities.
- Discoverture with a strong record of deploying solutions, based on major P&C Insurance platform, enabling clients to transition to a more modern agile environment. The addition of Discoverture combined with Mindtree technology services and consulting strength will enable us to offer a full-suite of offerings to transform and run a world-class insurance technology platform.
- The India center of Discoverture is at Bhubaneswar with around 230 employees. This will accelerate our strategic aspiration of expanding footprint in Bhubaneswar, Odisha.
- Discoverture's current revenue run rate is about $3.5 million per quarter. The deal is subject to customary closing conditions and regulatory approvals. We expect the closing to take place in about four weeks. Therefore, the acquisition will not have significant impact on Mindtree's Q4 numbers. The margins are in line with Mindtree's margin profile.

Now, let me pass on to my colleague, Rostow, to share a few other financial highlights.

Rostow Ravanan: Thank you, K.K. Once again on my behalf, wishing all the Members of the Investors and Analysts Community, Happy and Prosperous 2015.

Some additional financial highlights for the Q3:

- In the quarter, fee revenue growth was 0.6%; this breaks up into a volume decline of 1.5% and improvement in realized rate by 2.1%. The decline in volume was mainly due to the seasonal impact of Q3, which included people taking leave, lower working days and furloughs imposed by clients. Without the seasonal impact, volume growth for the quarter would have been about 3%.
- EBITDA margins for the quarter increased from 19.8% in Q2 to 20.5% in Q3. This happened in spite of the headwinds due to salary increases which led to 0.7% impact to margins. The cross-currency impact negated the beneficial impact from the depreciation of the rupee against the dollar. So the entire profit improvement was due to operational efficiency, such as rate realization, increase in fixed price projects and cost management.
- Forex gain for the quarter was $1.1 million.
- Effective tax rate for the quarter is broadly flat at 22.5% for Q3.
- PAT for the quarter increased significantly by 60.5% on a y-o-y basis.
- EPS for the quarter is a growth of 2.3% on a sequential quarter basis and 58% on a year-over-year basis and ended at Rs.16.74 per share.
- DSO at the end of the quarter improved to 70 days compared to 72 days of the previous quarter.
- Utilization including trainees is 71.8%; utilization excluding trainees is 74.2%.

- As of 31st December, we have hedges worth $39 million at an average rate of Rs.63.1. These hedges will expire in Q4.
- EBITDA to free cash flow conversion in the quarter has been very healthy at 85%.

At today's meeting the board of directors recommended a second interim dividend of Rs.4 per share in addition to the Rs.3 per share already declared in September.

Outlook for Q4:

- Margins in Q4 are expected to broadly be in the range of our 9-months ended December level without factoring any impact of currency. At our current revenue mix, 1% change in the rupee-dollar rate leads to about 35-40 basis points impact on margins.

On the acquisition of Discoverture, as KK announced a few minutes back, the entire consideration is payable in cash and will be paid out of our internal accruals. There are no fund raising plans at this point of time to meet the requirements of this acquisition.

With that we now turn this over to you for questions.

Moderator: Thank you sir. Participants, we will now begin with the question-and-answer session. We have the first question from the line of Ravi Menon from Elara Capital. Please go ahead.

Ravi Menon: Could you give us some color around the kind of projects that you are seeing in Package Implementation?

Krishnakumar Natarajan: See, primarily, like we said, the Package Implementation business is going on, but what we certainly see is that, particularly in segments like Retail, Consumer Products, increasingly, clients are seeing growth coming in from emerging markets and clearly the type of solutions required is to rethink in terms of what will be the paradigms of IT Solutions which will help them in the emerging markets. So clearly, there is a set of solutions which uses base Package applications but the overall IT Solutions is meant to handle a key business process in emerging markets, in a typical CPG company it could relate to distribution. In a Retail chain, it could lead to sort of assortment planning and merchandizing which is for emerging markets and so on. So that's clearly one key area of I think which we see. The other area where we clearly see in Package Application is that, there is certainly contract renewals which are coming up for traditional maintenance sustenance of packages which have been implemented. We certainly see that as being also an important element of the demand which is coming in there.

Ravi Menon: The onsite revenue proportion, sir. Is that a seasonal element to that, the slight increase that we've had this quarter?

Krishnakumar Natarajan: Yes, the slight increase is largely seasonal, Ravi, because clearly, I think the way in which we see it is overall from client perspective, I think the need to transform a lot of either their existing process or think of new innovation using digital transformation as a base, we are seeing increase in that, we have seen the average deal size in Digital improving by about 15% in the last three quarters, but consequently, when an initial engagement in Digital starts, there is work which needs to be done in an Agile environment close to the customer which is why you really see a marginal increase in onsite, but that's largely seasonal. The other reason why particularly in this quarter onsite goes up marginally, is the new H1B petitions which are approved in April, they become effective, and people can enter starting 1st October. So there is also a little bit of pent-up demand which might have been there earlier since the entry becomes possible on 1st of October people travel. So that's another reason for the marginal increase in onsite.

Rostow Ravanan: This is a follow-up answer to your previous question, Ravi, this is Rostow. Our Package Implementation business has continuously grown; it was about 2.5% for Q3 last year, more than double to 5.8% for Q3 this year. So one piece of the business has grown quite significantly. The margin profile of this business is around the median of Mindtree. There are a few practices that we have like Infrastructure Management which are more profitable, but the Package Implementation business is approximately the same margins on a median basis compared to our other service lines.

Ravi Menon: All right. Great, sir. If I could ask for some more about the Digital proportion; like in Package Implementation, do you have any SaaS or SMAC components that you count in there?

Rostow Ravanan: The way we define Digital and SMAC cuts across several of our service lines. So if you see our fact sheet we have declared that the work that we do in the Digital and SMAC area, is about 33% of our revenues for the quarter, but the work that we do in Digital, cuts across different service lines; so, maybe in Package Implementation, maybe in Custom Application Development, in Cloud, in Engineering. So the work we do in Digital, cuts across three or four service lines that are reported in our fact sheet.

Moderator: Thank you. Our next question is from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran: Yes, hi. I just wanted to get your thoughts on the attrition. If you look at it, it's been inching up from almost four quarters in a row, and then on a quarterly, annualized basis, almost double. So, I just want to understand, is there any involuntary aspect of it, if not, what are the plans to curtail the same?

Krishnakumar Natarajan: Srivatsan, Partha is going to sort of try and give you an answer to that.

Parthasarathy N.S.: Just that like KK mentioned, I think attrition increase is definitely a concern, we have put in place a series of actions and we expect the attrition for Q4 on a quarterly, annualized basis will come down, we are already seeing signs of that.

Srivatsan Ramachandran: Can you just give us more color on what are the areas we are seeing maximum attrition, is it in some of the more hotter skills that is we are seeing attrition or is it just across the board, some more detail will be helpful?

Parthasarathy N.S.: I think obviously the attrition is higher among the hot areas, primarily, a little bit on Digital, a little bit on Analytics, but those are the areas we are also focusing on, because the demand is high across the industry for these types of skills.

Srivatsan Ramachandran: Sure. And then my next question is on the broader Travel and Hospitality sector. There is a macro tailwind which could potentially help this sector. So I just wanted your thoughts on how do you see discretionary spend play out specifically in the Airline sector?

Krishnakumar Natarajan: Srivatsan, to broadly think, we are in maybe three broad segments within that – one is really the underlying Infrastructure which is the Travel Distribution segment, which we think the demand is certainly good, because I think there are not too many players there, and the number of them are investing in technologies to rebuild their platforms. On the Airlines side, clearly, there is a mixed bag; we find profit-making airlines like the ones in the Middle East clearly investing a lot, we are present in a few of them, clearly, with the way in which the fuel prices have dropped, we are starting to see trends the people are wanting to invest more whith technology to improve customer experience as well as analyze in terms of understanding the customers better. It is early days, but we think certainly airlines will have a better FY16 at this point in time, but it is early days still. The third element which you've got there is really the Hospitality segment, which is primarily either hotels or car rental agencies, where I think it's very client-specific, we still feel the demand there is pretty good.

Srivatsan Ramachandran: Okay. And just wanted to touch base on the engineering. That's a space where we are seeing a decent amount of growth come back in the last two-three quarters. An outlook there in terms of how things are shaping up would be helpful?

Krishnakumar Natarajan: See, clearly, in some ways, Srivatsan, I would think that Engineering, you have to look at trends on a year-on-year basis. I think looking at it in quarter, obviously, we had a good last quarter but that's because of a very specific sort of investment in a line of product with the customer. But overall, if you look at, I think in areas like what we call Consumer Hi-Tech where primarily we are involved in devices, relating to either wearables or devices which are used by consumers, we think certainly the demand outlook is healthy. On the other part which is Enterprise Hi-Tech, there is certainly still demand where traditional on-premise license-based software vendors are wanting to sacrifice their offering so there is a lot of demand on the Cloud Engineering part of it. But, the fact is it will tend to be a little lumpy demand. Clearly, on the IP-related revenues, because we have been the first in adopting the latest standard of Bluetooth, particularly, in low energy Bluetooth, we still see that we are going to be a leader particularly in implementing Bluetooth-related IP on consumer devices. So, certainly, that will still be a strong area of demand.

Moderator: Thank you. Our next question is from the line of HR Gala from Panav Advisors. Please go ahead.

HR Gala: Yes, Happy New Year and all the best for good results. I just wanted to know your geographic distribution of the revenue. As you said in your initial remarks that decline in the share of business from Europe is bit discouraging. How do you see going forward our geographic distribution will look like?

Rostow Ravanan: In this quarter, like we explained, Europe declined, but the largest portion of that decline was due to cross-currency impact. Going forward, we think it should stabilize; from a business point of view, the currency impact obviously is outside our control, but going forward, I think it will stabilize. Over the last few quarters, we have built out our field force in Europe with lots of new talent were coming from leading companies in our industry over the last few quarters. So we think it should stabilize and continue to grow for us.

HR Gala: Okay. It will stabilize. So approximately how much revenue do you think Europe would contribute going ahead?

Rostow Ravanan: I don't think there'll be any major changes in our geographical distribution that we have. US is our largest geography, so that will always be in the 60%-odd range, Europe should improve a little bit from where.

HR Gala: Okay. Within Europe, which are the major countries where we are?

Rostow Ravanan: About 40% of our European business comes from the UK and the balance is typically from Northern Europe countries like Netherlands, Germany, Belgium, etc., contribute to a bulk of our European revenues.

HR Gala: Okay. As far as this acquisition of the insurance company is concerned, is it making profit at the bottom line?

Rostow Ravanan: Like we explained in the opening remarks, profitability of this company is at a same level as Mindtree, roughly.

HR Gala: Okay. Even at the net level?

Rostow Ravanan: Even at the net level, yes.

HR Gala: Okay. So do you think the price which we have paid $15 million that is the enterprise value?

Rostow Ravanan: That's correct. The company has zero debt, so the acquisition value is what we have paid.

HR Gala: Okay. So more or less it is 1:1 price which we have paid for turnover?

Rostow Ravanan: Correct, slightly more than 1:1, but yes, broadly in that range, revenue wise.

HR Gala: And you look forward to good growth going ahead?

Rostow Ravanan: Yes, this entity has had good growth over the last two or three years. With the Mindtree brand and our sales reach combined with their very strong capability we think that business has a very bright future.

HR Gala: Okay. Just last question from my side. I think sometime back, you said that there was a volume decline of 1.5% and 2.1% price increase – the revenue growth in the earlier release we have stated at 0.4%?

Rostow Ravanan: Correct, so the earnings was 0.4% growth, but the breakup of volume decline on price increase which is only for the fee revenue, so of the overall revenue growth, fee revenue growth was 0.6% which breaks down to a volume decline of 1.5% and a price increase of 2.1%.

HR Gala: Okay. And you said the new orders we have booked is $152 million. I didn't get that number properly.

Rostow Ravanan: Yes, so the total new orders booked in this quarter was $152 million, of which the renewals are $106 million and new orders were $46 million.

HR Gala: Okay. And sir, as far as the dollar volatility is concerned, to what extent our business was impacted in this particular quarter?

Rostow Ravanan: Dollar volatility from a revenue growth perspective was more on the bottom line. Cross currency impact on our revenue was 1.6%.

Sushanth Pai: On a constant currency basis, our revenues actually grew 2%.

Moderator: Thank you. The next question is from the line of Madhu Babu from HDFC Securities. Please go ahead.

Madhu Babu: Sir, fixed price projects have been steadily increasing as a percentage of revenue. So is that intentional? Has that been a margin driver for this quarter?

Krishnakumar Natarajan: See, clearly, that's been a focus for us, because increasingly, as we get into delivering more critical services to the customer, we are getting them in a fixed price project mode. They do contribute to margin profile because as compared to the traditional T&M services, the fixed price clearly is at a better margin level, because we are able to leverage and bring in some of the IP assets which we have built. That is also part in terms of how we could improve margins.

Madhu Babu: Sir, and secondly, now we're into end of January. So how do we see the momentum for FY16 can we see this kind of growth which we have seen in this year for next year?

Krishnakumar Natarajan: See, Madhu, we are just in the initial stage, customers are coming back from their holidays. So I think the good time is about 4-5 weeks to give you a feel of how calendar year '15, because they are really planning for calendar year '15, but as we have talked to customers, I think, we have clarity amongst at least our top 30 customers, so the initial reaction we're certainly getting is that, clients are actively engaging in looking at technology spends and initiatives, we're not getting any negative tone, so at this point in time, we are very positive about how FY16 as well as calendar year '15 budgets will look like. It is early days, but at this point in time, it is certainly a positive sign which we're getting from customers.

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

Sandeep Shah: Yes, thanks for the opportunity. Just wanted to understand this pricing increase of 2.1%. So, I do agree that fixed price might have led to this, but when I look into the Q4 of FY13, the fixed price versus today versus Q4 FY13, it was like been increasing on a Q-on-Q basis by 500-600 basis points, while your offshore rate on a Q4 FY13 was $21/hour, today, it is $20/hour. So, what has led to this fixed price largely giving you a pricing increase in this Q3 alone and not in the earlier quarters? So, am I linking correctly that the pricing increase is largely because of fixed price improvement?

Rostow Ravanan: Partly right, but the other point to keep in mind is that in this quarter because fixed price and fixed monthly contracts typically give you the same revenue for lower billing hours. So that is also contributing to the improvement in realization rate. The same factor which hurt us on volume growth benefited us on realized rate.

Sandeep Shah: Okay. And also, in terms of the margins also fixed price been going up, the EBIT margin has been flattish on the last seven to eight quarters at closure to around 16.5% to 17%. So, why the same is not getting reflected into the margins?

Krishnakumar Natarajan: See, clearly, I think, Sandeep, if you have seen, we have seen a significant investments in our client-facing teams, I think, we shared that last year across the client-facing teams and on additional SG&A spend, I think, our spend was there. Today, I think, clearly, the intention is in terms of saying, how, one, obviously improving our operational efficiency, but at the same time, reinvesting back in terms of creating a strong front end and in a way if you really look at the strong growth which North America has delivered over the last two-three quarters, that's really a reflection in terms of investments in client-facing teams that we had put in before that. We are starting to do that in Europe now. So, to that extent, we would think in about three-four quarters, Europe should also get to a strong growth momentum. So, it is certainly, at this point in time investments in client-facing teams both in account management as well as business development team as well as domain-based subject matter expert in the field to really try and drive the cycle of rapid growth.

Sushanth Pai: Also, if you see, Sandeep, this quarter the margin has improved and one of the reasons have been because of fixed price.

Sandeep Shah: Yes. And just in terms of the margins for the fourth quarter we said that the 9-month margin would be equivalent what we foresee for the fourth quarter. So, are we talking on a constant currency?

Rostow Ravanan: No, we are talking about the currency that prevails as of today.

Sandeep Shah: Okay. Because the first 9-month, the average rupee-dollar was closer to around Rs.60.6, while today it is Rs.62. So actually it should be slightly higher than the average of the first nine month.

Rostow Ravanan: Correct, but from then to now, you also had cost increases on salary and a few other things. So, the margin for Q4 is expected to be in the same range as what we have done on a 9-month basis for the period ending December.

Sandeep Shah: Okay. At a current today's spot rate on the rupee-dollar?

Rostow Ravanan: Correct.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBI CAP Securities. Please go ahead.

Dipesh Mehta: I have two or three questions. First, I just want to understand top client performance. If you can help us what is driving growth there? And if we have just top client performance, I think remaining top clients, we are seeing some kind of weakness. So, if you can help us understand what is happening among our major clients? Second question is about the attrition. So, if you can help us, what would be the employee pyramid, zero to three years for us? And if you can give data point of freshers added during the quarter? Third question is about acquisition. If you can provide historical growth rate how the company has performed? And lastly it is about the employee-related cost. Despite salary hike given this quarter and gross addition of roughly 1,000-odd employees, our absolute employee cost remain largely flattish, slightly lower. So, if you can help us understand that part? Thank you.

Krishnakumar Natarajan: So, for the top client, I think, clearly, the way in which we are engaged with this client is really start expanding our portfolio of services, and to that extent today the nature of the relationship is such that we have joint go-to-market with respect to where products and technologies as well as our range of services there encompasses three of our key service lines. So it is very focused structured account mining initiatives with joint investment as well as specific investments which we do, where clearly I think we're continuing to grow and since we are broad-based, there is not much of seasonality impact with this top client. You did indicate that amongst the top 10 clients, there is a marginal decline, and we did share that clearly for one of the top clients and large work which we did we had to transition on to a local vendor, and that has led to marginal decline in the top 10, we do not see any of those top 10 clients having any clear sort of uptake issues in the near future. I will ask Partha to talk about the attrition and people-related things.

Parthasarathy N S: You had two questions, Dipesh, one was the pyramid, our 0 to 3 years experienced people have dropped from about 29% to 26%, but obviously that will get compensated because we have added about 600 minds in the last nine months from the campus, we are adding 400 more in Q4. And for next year we are looking at adding 2000 campus minds, totally through the year.

Krishnakumar Natarajan: And on the acquisitions, historical growth rate

Gaurav Johri: The historical growth rate of this company has been in the 20% plus range, I mean, we've had 20% to 25% kind of growth rate, and we hope to sustain that.

Dipesh Mehta: Okay. And last part is about the employee absolute cost decline. If you can help us understand that part; despite salary hike, despite addition of employees?

Sushanth Pai: There are many associated costs that go with the employee cost, so you know every quarter when we do various calculations on the employee cost, you know there would be some benefits, but the key thing is that you know we have added campus people on employee, so therefore some costs have increased there, utilization has also sort of decreased, but the key thing is, you know, every quarter when we do certain benefits expenses on these employees, there could be some aberrations between quarter-to-quarter.

Dipesh Mehta: Okay, understood. And just to get this campus number, 600 you said for nine months. What would be the number for only Q3?

Sushanth Pai: About 350 people we have added.

Parthasarathy N.S.: 350 we have added in Q3, we are adding 400 in Q4.

Dipesh Mehta: Okay. And if I can ask about Capex outlook because of the intensity we have seen in this year, how we see Capex for next coming year?

Rostow Ravanan: We are in the middle of our plan process, so when we announce the results for the March quarter, we will have a view of the Capex spend for next year.

Moderator: Thank you. Our next question is from the line of Pranav Kshatriya from Edelweiss. Please go ahead.

Sandeep Agarwal: Yes, hi, Happy New Year to the management team, Sandeep Agarwal here from Edelweiss. Sir, a couple of questions. One, I have just asked from one of the other call where you know we got clear hint that the recruitment is going up significantly from the IT industry. So wanted to check your view on that? Secondly, given the way cross-currency has impacted, given the way we are seeing impact from Europe, will there be a significant impact in NASSCOM's outlook for all the companies, and, in fact, even if you can speak about your company, I am not asking for a specific guidance number? And finally, on the Digital side, are you seeing the deal sizes going up, or they are still small?

Rostow Ravanan: I will take the first question, we are in the middle of our plan process, so if we maintain you know the revenue trajectory that you have seen in the past, hiring will also obviously follow based on the business variations that we have, so that number we will have a more clear view by the fourth quarter end.

Krishnakumar Natarajan: Coming back, yes, I think there is a cross-currency impact, but what I do believe is that, like we had shared earlier, we see growth being strong in Q4 and for Mindtree we are very confident that we will comfortably beat the upper end of the NASCOM guidance of 13% to 15%. You had another question whether based on what is there, whether NASSCOM needs to revise this guidance. My guess is that if you really look at it, there is certainly strong traction for technology services, and while there could be little differences between players, overall, I think there is a confident picture on the demand environment, I believe the NASSCOM estimates of 13% to 15% for the industry will still hold good. Your third question was on the Digital. We certainly see the pipeline for the digital very strong. And to that extent as we are in early conservations with our top customers, we see clearly they are in a sense preparing themselves to invest in digital transformation initiatives. What we have also observed in the last 12 months is our average value of deal in Digital has gone up by almost 15%, which we think will continue to hold in FY16 also. So overall, we are very-very confident that digital will be a big growth engine for us in FY16.

Sandeep Agarwal: Okay. Sir, actually, I think a half part of my first question was unanswered. I was trying to understand that we are getting increasing hint that the recruitment has gone up quite significantly. So is that true, you are saying the same thing or not? That's it.

Krishnakumar Natarajan: No, clearly if you see, we have got a gross addition of 1016 Mindtree Minds during this quarter, and Partha also shared that next year we are thinking of 2000 campus recruits to be added, which probably will be the highest number for Mindtree in the last four years. So we are seeing a strong traction for FY16 and we are going ahead on the basis of a plan that we will add in 2000 campus recruits next year.

Moderator: Thank you. Our next question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: If you could give us some sense on what are you seeing within your top customers across the three focus verticals that we have? That's question #1. And the second question was more on margin outlook in the medium term; not just for Q4, but over the medium term, given the kind of investments that we are making in sales and marketing, the plan to hire freshers, etc.,?

Krishnakumar Natarajan: Rostow will give you margin outlook and maybe I can add on what we are seeing amongst our top clients.

Rostow Ravanan: Manik, Rostow here. I think on a quarter-to-quarter basis, I think there could be variations because of currency or because of you know salary increases, you know one cost, or one gain etc., but on a medium term basis given that we are seeing strong growth momentum, I think we will probably definitely be able to maintain margins and wherever we are going to optimize we will try our best to optimize as well.

Krishnakumar Natarajan: So Manik coming back to what's this that that we are hearing from clients, like I shared earlier, clearly, we are in the early stages of talking about budgets for calendar year '15, and at this point in time we are not hearing any negative tones from customers, I think we are seeing more engaged conversations, to that extent we would feel positive about how the budgets will sort of pan out for calendar year '15, but a common theme which clearly comes from our top clients is that clearly they would like to drive more efficiency in technology solutions which is running the business, which means they are really looking for optimization, cost reduction in that, and at Mindtree we feel that's an opportunity for us particularly with large clients where we are not present, this gives us an opportunity to enter into those clients, but clearly clients are wanting to invest this money back into discretionary spends which are primarily on Digital, which again we see is an opportunity for us. So if we have to give a segment wise view, particularly in segments which are very consumer-facing like Retail or Consumer products, we see very strong positive momentum. I think clients are increasingly looking at initiatives to improve their customer experience to really digitally transform some of their internal process to improve efficiency, which is equally true of the banking, financial services and insurance industry. In Hi-Tech, we are clearly seeing two major segments with good demand sort of outlook, particularly, the Consumer Hi-Tech part with new areas like wearables coming in, I think there are a lot of investments getting into engineering as in the cloud engineering services both for engineering as well as deploying the cloud platform for the client related sort of thing. So that's how I would really sort of summarize how we see the demand with respect to the segments in which we operate.

Moderator: Thank you. We have the next question from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: My first question is: If I heard you correctly in your opening remarks, you mentioned about some delayed decision-making at some of your clients. Could you just give some more color on that? And the second question was just some more details on the acquisition. Will you be retaining the management of the target? And how will you essentially incentivize them to stay on with you for long?

Krishnakumar Natarajan: Sagar, again to be fair, I think the delay in decision making, we feel right now is more seasonality, it was in comparison with respect to November as a month, because we certainly saw the closures in December being lower than November, so we just passed that, but as a sort of extension to that, clearly, once clients have come back from their holidays in early Jan, we are seeing momentum pick up, so clearly it was more linked to the seasonality in December, where decisions got pushed from December hopefully to late January, that is really the delay which we are talking about. So we do not see a material impact in terms of how we see the demand environment because of this three to four weeks delay in decision making. Coming to the acquisition, clearly, I think we see the 300 members of Discoverture and the key management team being a very integral part of Mindtree, I think they are very excited to become a part of the Mindtree family and we think together we can really build a sizeable business in the P&C package implementation space and it will really help us accelerate our aspiration of being amongst the top three service providers in the P&C Insurance market. And the way the deal is also structured, one, I think the consideration is payable over 18 months and there are earn outs for them to drive more faster growth rates, so to that extent there is adequate incentive for the current management team to work along with a larger field force in Mindtree to grow the business.

Sagar Rastogi: So the current owners or the shareholders who are selling are the employees themselves, is it?

Krishnakumar Natarajan: That's right.

Sagar Rastogi: Okay. And just a quick follow-up on that. You mentioned your aspiration to be among the top three services players in global P&C. Could you give us a sense as to who are the – I mean, what is your rank right now? And who – what size do you need to achieve to become a top three player?

Krishnakumar Natarajan: See, we have an internal aspiration, but clearly we do not give guidance nor share that number.

Moderator: Thank you. Our next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Hi, most of it has been answered. Just a couple of questions more on the Travel and Transportation space where I think you gave some commentary. But still, if you look at from last several quarters, our revenue from the segment has been languishing. So if you could add furthermore on the kind of traction we may expect going forward?

Rostow Ravanan: I don't think the vertical has been languishing for several quarters, last Q1 and Q2 it had a good growth, it's only this quarter where it had a decline, and part of it, like we explained was you know both to currency and to the seasonal impact, early parts of this year that vertical grew quite well.

Rahul Jain: No, sir. I am not talking a quarter, two quarters as such, but if you look at the absolute quarterly run rate, it has been sort of flattish for maybe 6-7 quarters now?

Rostow Ravanan: Not really, Q3 last year to now it is an 18% growth, we have grown faster than Mindtree on a Y-o-Y basis.

Parthasarathy N.S.: So if you see Q1 and Q2, the growth was you know 13% in Q1 and Q2 was about close to 9%, so we have been growing quarter-on-quarter this year.

Rahul Jain: Okay. Maybe there's some miscalculation at my end. And secondly, what's the trend forward for you on the IMS service line?

Parthasarathy N.S.: The IMS service line, like KK mentioned, I think the decline that you are seeing in this quarter is because of one specific client. The traction that we are building in the market, in both our existing customers and new customers, in terms of the new way in which we are approaching

IMS markets, we believe will continue, which is a strong service line product, and we expect that we will get growth back in the next quarter onwards.

Rahul Jain: Do you expect to be similar or higher than the company average in general?

Parthasarathy N.S.: So, if you look at the IMS growth on a year-on-year basis, obviously, it is one of our fastest growing service lines, expect for this quarter, the dip that you are seeing, we expect that growth that you had seen in the previous quarter will come back, probably it will take a little longer time to reach the same level in the next couple of quarters.

Moderator: Thank you. Our next question is from the line of Ashish Agarwal from Antique Stock Broking. Please go ahead.

Ashish Agarwal: Yes, thanks. Most of my questions have been answered. Just wanted a clarification. In the opening remarks, you mentioned that our margins are expected to remain similar to a 9-month average. Now given that Q4 has a higher number of working days as well as known amount of seasonality plus no salary hikes, what is the reason, what are the headwinds you are facing on the margin front then?

Rostow Ravanan: The working days in Q4 are the same as in Q3. So the commentary like KK mentioned – there are pockets of our business that we see continuous investment opportunities, so on a quarter-to-quarter there will be some positives and some negatives, therefore, on an overall basis, we expect the margins in Q4 to be around the same level as what we saw for the 9-month ended December.

Parthasarathy N.S.: Also, we are adding 400 campus people.

Krishnakumar Natarajan: Campus people we are adding, Ashish, and then if you look at the overseas, primarily a number of employment cost like insurance and so on will probably come early in the year, so that will also bring in a certain level of cost in Q4.

Moderator: We will proceed with the next question that is from the line of Mr. Ankit Pande from Quant Capital. Please go ahead.

Ankit Pande: I just had one question may be related to the earlier strategy we did announce relating to the plan to cross-sell our Infrastructure and Analytics services into some of the Hi-Tech clientele, that was an old classification. How do you think plans like that are proceeding – for us what is the kind of reception that we have got from the market?

Rostow Ravanan: So that strategy has worked out extremely well; we have begun to see a few initial successes in that area, and even if you look at the pipeline that we have, that continues to apply. If you remember last quarter we announced Analytics win in one of our large Hi-Tech customers. So the approach we have taken is yielding results already.

Krishnakumar Natarajan: Also if you see, Ankit, for the first time I think our Hi-Tech business consistently quarter-after-quarter has shown growth, which was not the thing, if you take FY14 or FY13 for that matter, the revenue was always lumpy, so the big sort of stability which is brought in the business is, it is growing quarter-after-quarter on a more predictable sustainable basis, part of it is because of clearly we are bringing in more predictable services as a part of their offerings.

Ankit Pande: If you have the classification for the old PES or Hi-Tech number, could you just give me that?

Rostow Ravanan: No, we don't use that classification any more.

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

Ashish Chopra: Just a couple of questions from my end. Sir, would it be possible to share the proportion of your resources which will be deployed towards Digital services today?

Krishnakumar Natarajan: Proportion of?

Rostow Ravanan: People.

Krishnakumar Natarajan: Ashish, we'd have the revenue which is what we have indicated as 33%, but we won't have a sense of people there.

Ashish Chopra: Okay, sure. And secondly, my question was on IMS. If I remember, a few quarters back, you shared that the sweet spot of revenues in terms of deal sizes that the company is able to win are in the range of maybe $20-odd million, but then you would need a significantly better scale to be able to garner larger size deals. So, just wanted to know: in terms of that segment, would the deal sizes that you are able to win now have inched up in the last few quarters or do you think that it would still be in the range of $20 million as far as your sweet spot goes?

Krishnakumar Natarajan: We are still in that range to the extent. Clearly our aspiration is to be in the $50 to $100 million deal, but as yet we have not cracked that.

Ashish Chopra: Okay. But in terms of your strategic direction, would you be doing something differently in order to get there?

Krishnakumar Natarajan: Certainly we would, in fact when we said we are investing in front end client-facing teams, particularly in terms of the large deals, I think we've been increasing our investments in terms of the connects which we have both with third-party advisories as well as analysts who bring in those deals. Yes, we did participate in one large deal, but we didn't sort of make it. We are hopefully getting or in the process of participating in a few more. So, it is clearly a key focus area for us both from an investment and what percentage of time management or top management invests in it to get some of these.

Ashish Chopra: Okay. And thirdly, would it be fair to say that the lumpiness of revenue that we used to witness in Hi-Tech is behind the company now and there is a greater amount of stability within the segment that we can expect going forward?

Krishnakumar Natarajan: To be honest I think we are trending along the right direction, but it is still work in process. To my mind, I would be comfortable enough, if for six quarters we deliver consistent growth, three we have done, clearly, the internal target is for us to continue to do this quarter-after-quarter.

Ashish Chopra: Sure. And lastly, would it be possible to share the split of employees in the acquired entity across the four regions that were mentioned?

Rostow Ravanan: About 300 people overall in the company, of which 230 are in India, and of the remaining 70, largest population to the US, a very small group in Canada and UK.

Moderator: Thank you. We have the next follow-up question from the line of Srivatsan Ramachandran from Spark Capital. Please go ahead.

Srivatsan Ramachandran: I just wanted to understand on the acquisition we have done. Would it add more product expertise that we don't have, predominantly Guidewire and the likes, I just want to understand in terms of product implementation capabilities, would it add more names?

Gaurav Johri: So, it primarily adds capability in Duck Creek and SAP Camilion for us. About 85% of the company's focus has been on Duck Reek and that's their primary capability.

Srivatsan Ramachandran: Predominantly Guidewire, I presume.

Krishnakumar Natarajan: No its not Guidewire. Mindtree has a significant experience in another package called eBao. Now together with the capability which Discoverture brings which is Duck Reek and Camilion, we also have some Camilion capability so we are addressing a significant part of the key packages in the thing, and these are the widely used packages, obviously, Guidewire is the leader, but if you beyond take Guidewire, these are the #2, #3, #4.

Moderator: Thank you. We have the next follow-up question from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah: Just a couple of more, is in terms of attrition, what would be two or three key reasons where the attrition has been going up despite in terms of the dollar growth we are one of the best performing companies in the industry? So what are the 2-3 reasons for which the attrition has been going up?

Parthasarathy N.S.: The attrition obviously is a complex thing, there is no one specific reason why attrition goes up. Clearly, obviously the demand for certain skills is high in the industry, and there are more opportunities for people. So people who have aspirations to work on certain technologies would like to look for those kind of opportunities that is why they move. I think clearly like we said in the beginning, we are putting in specific action to ensure that the people who have these kind of aspirations get the kind of opportunities within the organization and that is what we are attempting to do. So it's not one specific reason why attrition goes up, that's the way we are seeing it today.

Krishnakumar Natarajan: The other key reason is if you really look at, we are moving more and more into a significantly differentiated compensation structure, which necessarily means we are trying to measure the real value which individuals bring in. So when the compensation cycle was rolled out in July, I think the level of differentiation had been much larger than what it is normally and typically I think this is still an industry where salary data is not confidential, so there is still that process of people acknowledging, yes, there will be differentiation, so particularly after this salary revision cycle in the mid band, which is really people who are in the performance band of 50 to 60 percentile or 50 to 75 percentile, there has been an attrition because they primarily felt, "Oh! I have done well, but I have got this raise." But we think that is a good thing, or at least that is a thing which we want to drive, we want to make differentiation of people who contribute more. We are putting in systems to measure that fairly, very intensively. And like Partha said, we are doing a lot of things to educate people that this is the reality of the industry. So, we will get this back and you will see progress on this starting from Q4, quarter-after-quarter.

Sandeep Shah: Okay. Just last question, sorry to ask this again, though it has been asked by another participant. Why the absolute salaries and wages have gone down when we have added in the last two quarters net employee addition? The less than three-year experience has been going down, the on-site effort mix has been going up and we have wage inflation in this quarter. So what is leading for absolute wage bill to go down?

Sushanth Pai: Yes, a couple of factors Sandeep, one, you know the rupee has actually depreciated, so we would have got some savings there, so that is one of the key reasons where – why the salary has gone down.

Krishnakumar Natarajan: Sandeep, the other point is clearly we shared when we talked about growth. Seasonality, of which, leave was clearly a key seasonality. I think obviously that also leads to some of the compensation cost going down in the last quarter.

Moderator: Thank you. We have the next follow-up question from the line of Dipesh Mehta from SBI CAP Securities**.**

Dipesh Mehta: Just want to get some sense about the Package Implementation and acquisition. Can you help us understand what will be our revenue coming from P&C segment on Package side?

Gaurav Johri: P&C revenues really account for about 60% closer to 55% of our BFSI revenues. Within that, packages would be accounting for somewhere about 10% odd of revenue within insurance. We significantly want to up that and that is why we have made this particular acquisition.

Dipesh Mehta: So just to get sense because when you said 55-60% of BFSI, then Insurance would be how big for us, or otherwise if you can help us what would be the P&C package for us?

Gaurav Johri: So what I indicated was 55% of BFSI is Insurance and of the Insurance about 10% would be Package.

Dipesh Mehta: Okay. Got some sense. And second question is about the campus what we intend to hire for next year, roughly 2,000 odd employees. If I do some arithmetic, it roughly gives around 15 percentage of what our employees stand as of now. So whether we expect any material change in our 0 to 3 years bucket going forward, or because of the attrition what we have seen in that bucket, we don't expect any material change in our pyramid?

Parthasarathy N.S.: Clearly, the 0 to 3 years' experience that what we have seen is in this quarter is a little lower than what we had in the previous quarter. We expect that these are the three years will come back to the 30% to 32% in the next couple of quarters.

Dipesh Mehta: Sir, why I am insisting further is about roughly 15 percentage of the current head count we intend to add in next four-odd quarters. Now because of that material shift, whether we expect from 28%, that number to materially change and again go back to what we earlier used to 6-7 years back you used to operate at?

Krishnakumar Natarajan: Here, you would also see that the attrition in the 0 to 3 years will be there, in the time when we add the 15%, there will also be an attrition in the same thing, which is why Partha is suggesting that if we look at what is the 0 to 3 year will end at, it will probably in the 32% to 34%.

Dipesh Mehta: What number you suggested sir – 30% to 34%?

Krishnakumar Natarajan: 32% to 34%.

Dipesh Mehta: Okay. Got it. And last question is about the Engineering business. Usually, we used to see some seasonality in Engineering business in December quarter. This quarter, it appears to be not visible. So any specific reason? If you can help us understand how we take it forward in terms of December quarter seasonality.

Krishnakumar Natarajan: See, to be honest, the Engineering business tends to be seasonal. So, if you look at quarterly trends there, it will tend to be lumpy, to some extent, partly the Engineering business has been helped with IP revenues, it has been helped in terms of new sort of engineering works which we start with some of our clients, and you would have seen our top client growing marginally in terms of percentage, which is also really Engineering-related work. So it is linked to in terms of some of the client priorities in terms of how quickly they want to get a product out, in which case there is a certain growth which comes, but it's not something which will continue.

Dipesh Mehta: Okay. So this is only this quarter specific because of some work, otherwise seasonality is likely to continue coming in December quarter?

Krishnakumar Natarajan: It will, it will on the Engineering services.

Moderator: Thank you. Participants that was the last question, I now hand the floor back to Mr. Sushanth Pai for closing comments. Thank you. And over to you, sir.

Sushanth Pai: Thanks, Shyma, thank you all for joining this call and we look forward to speaking with you in the coming days, thank you.

Moderator: Thank you, sir. Ladies and Gentlemen, with that we conclude this conference. Call. Thank you for joining us. You may now disconnect your lines.