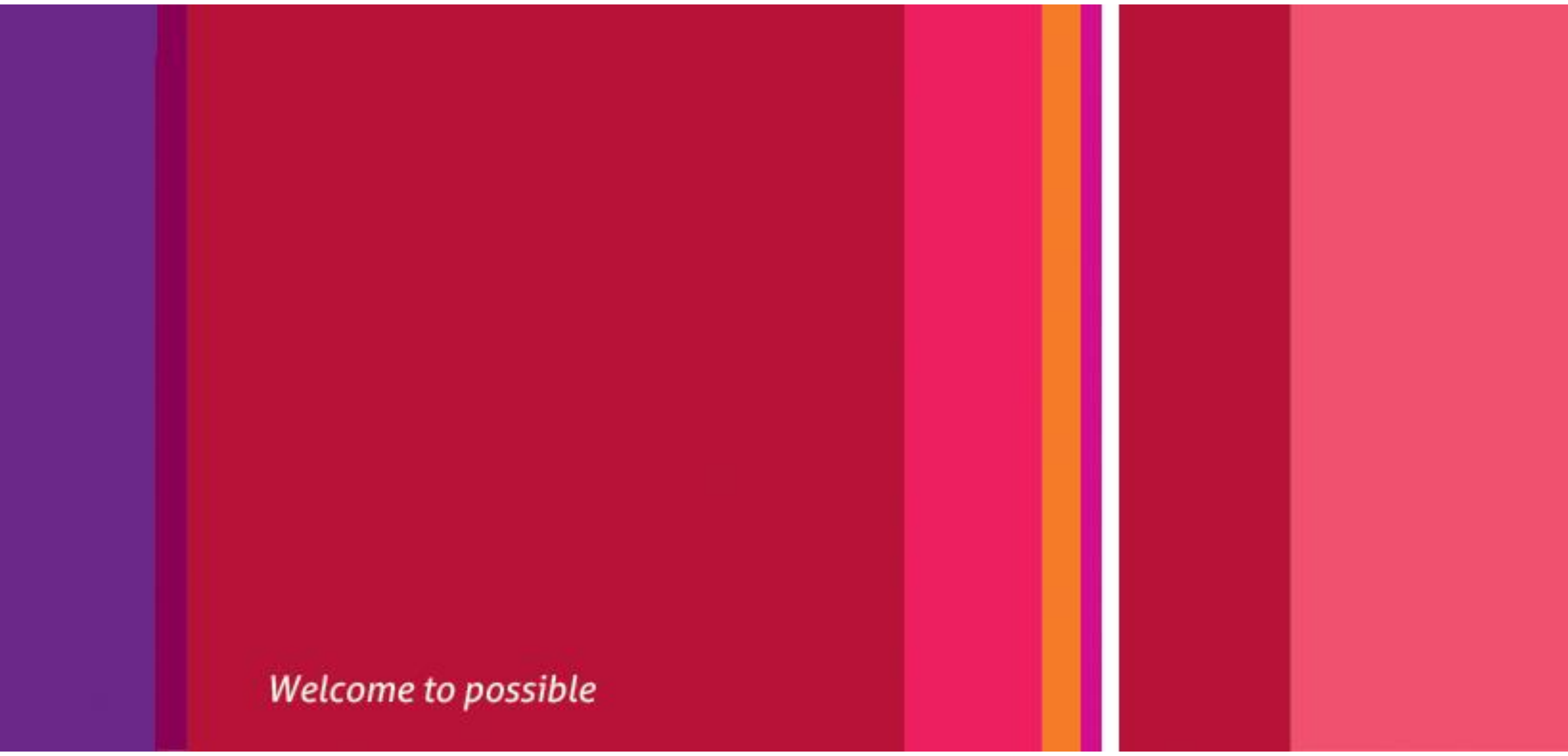
Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

First quarter ended June 30, 2015 (Q1 FY2016)

July 16, 2015



Moderator: Ladies and Gentlemen, Good Day and Welcome to Mindtree Limited Conference Call to Discuss the Results for the First Quarter that ended 30th June 2015. 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, please signal an operator by pressing '*' and then '0' on your touchtone telephone. 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, Inba. Welcome to this Conference Call to Discuss the Financial Results for Mindtree for the First Quarter Ended 30th June 2015. I am Sushanth from the Investor Relations Team in Bangalore. On this call, we have the senior management team, N. Krishnakumar — CEO and Managing Director; Parthasarathy N.S. — Executive Director, and COO; Rostow Ravanan — Executive Director and Head, Enterprise Service Lines; Jagannathan Chakravarthi – CFO; Ramesh Gopalakrishnan — Global Head of Delivery and Operations.

The agenda for the session is as follows: Krishnakumar and Jagan will begin with a Brief Overview of the Company's Performance after which we will open the floor for the Q&A Session. Since we have also introduced an audio webcast, some of you may have joined this webcast. The webcast is only on the listen-only mode but you can post questions. We will take webcast questions once we complete the questions through the conference call mode. 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 the Safe Harbor statement. During the course of the call, we could make forward-looking statements. These statements are considering the environment we see 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.

N. Krishnakumar: Thanks, Sushanth. I am happy to share that Mindtree has achieved a significant landmark of crossing $150 million in quarterly revenues. With revenues of $154.95 million, we have had a great start to the year, with growth of 4.8% quarter-on-quarter and 9.7% year-on-year in dollar terms. In constant currency terms, the growth of 5.2% quarter-on-quarter and 13.3% year-on-year.

We are also happy to announce that Mindtree has acquired 100% Equity Interest in Bluefin Solutions, a market leading UK-based independent consultancy in SAP HANA Solutions. Bluefin has an award winning track record of helping businesses manage Digital Transformation through their expertise in SAP, Analytics, Digital, Web, Cloud, and SAP HANA. This is an all cash transaction of GBP42.3 million. This consideration includes an upfront payment of GBP34 million and earn out of GBP 8.3 million payable over the next three years based on achieving certain targets.

The current digital wave is more focused on digitizing systems of engagement, that is the front end, but the next wave will be concentrated on digitizing the system of records, that is the backend, thus digitizing the complete value chain. This fits in well with our Digital theme of making Digital real. Currently, there are 4,000 plus enterprises on the HANA platform including 1200 plus customers using Suite on HANA. HANA is core to everything that SAP does across the product categories namely, Cloud, Mobile, Analytics, Applications, and Technology. We also believe that a significant number of existing SAP customers will migrate part of their application portfolio to HANA in the next 18-months. This creates huge opportunity and SAP in one of their communication has estimated the services market for HANA to be around $40 billion. This strategic acquisition is a step ahead to capture this market and this will strengthen our position to deliver HANA-based Digital Transformation solutions to our clients globally. In addition, Bluefin's strong UK client base supports Mindtree's ongoing efforts to provide leading solutions to broader UK market and also creates an opportunity to expand Bluefin's HANA expertise to the US market by leveraging Mindtree's presence there. This acquisition will add 60 plus marquee clients including many of the leading global players in the CPG, Manufacturing domain and 170 experts across UK, US, Malaysia, and Singapore. Bluefin has also been Sunday Times Best Company to Work for since 2008 for 8 consecutive years. Bluefin is a consulting-led onsite business and hence their billing rates are higher and so are the costs. The LTM revenues are GBP29 million and currently, their margins are below Mindtree's margin profile and hence will be margin dilutive at this point. However, we see cost synergies and will try to improve the margins in the coming quarters.

I am pleased to also share with you that James Appleby — CEO of Bluefin Solutions is here along with us in this call.

We are also happy to announce that Mindtree has entered into a Definitive Agreement to acquire the entire Equity Stake in Relational Solutions Inc., specialty provider of analytic solutions backed by a strong differentiated IP in the area of demand signal repository and trade promotion analytics for the CPG domain. This is an all cash transaction of US$10 million. The consideration includes an upfront payment of US$7 million and earn out of US$3 million payable over the next two years. This acquisition is subject to customary closing conditions and regulatory approvals.

Insights-based optimization is a big priority for leading CPG companies globally. Integrating data from internal transaction sources and external (both small and big data) sources and creating a single source of truth and perform analytics on them is a key focus area for CPG companies. This space is complex and requires specialized understanding of data sources, automation, and a deep domain expertise. Mindtree's estimate is that globally CPG companies spend $1.5 to $2 billion every year on similar analytics services. With this acquisition, Mindtree will be able to deliver strong predictive analytics solutions to enhance the sales and marketing effectiveness of CPG companies. The acquisition will also add 30 leading CPG clients including 2 of the global top-10 FMCG companies. This is an IP-led business with lower scale and higher margins.

RSI revenues for FY15 stood at $3.2 million, and their margin profile is better than Mindtree's current margin profile.

We do believe with the integration of Bluefin and RSI, Mindtree is very strongly positioned to be a leader in the Digital Transformation Services for our clients.

Now to some of the other highlights of our results for Q1. Amongst verticals, BFSI grew 10.5% quarter-on-quarter, Retail, CPG and Manufacturing grew 6.5%, Travel and Hospitality grew 1.8% and Hi Tech showed a growth of 2%. Among service lines, Maintenance grew by 9%, and IMTS grew by 6.4%. Amongst geographies, US continued its good show with 9% quarter-on-quarter growth, Europe declined by 3.1%, partly also due to the currency impact. However, we are seeing a good pipeline and Europe is expected to pick up over the next few quarters.

Our Digital business has outperformed with the growth of 12.7% quarter-on-quarter and we are seeing tremendous opportunities to partner with our clients for their Digital Transformation initiatives. With this strong growth, Digital by the end of this quarter contributes to 35% of Mindtree's overall revenues. We have 218 active customers, on client metrics we added 1 more client in the $50 million category taking the total number of $50 million customers to 2.

On the attrition front, LTM attrition is at 18.4%, compared to 18.2% last quarter. Quarterly annualized attrition is 18.7% compared to 18% last quarter. We believe attrition is not alarming and this quarter has been impacted by seasonal attrition, and clearly, there would be quarter-to-quarter fluctuations due to changing demographics. We have 14,427 Mindtree Minds reflecting a gross addition of 900 Minds during the quarter.

During the quarter we also had some strong multi-year multi-million dollar wins, some details of it: A leading personal digital media company — Mindtree will provide Application and Infrastructure Management Services. This is a new customer for Mindtree. A world leader in technology — for this existing client Mindtree will provide End-to-End Services and Support for its Cloud offering. A leading global insurance company — for this existing client Mindtree will provide Maintenance and Support Services for its Re-Insurance Applications.

Now some observations on the outlook for Q2 and for FY16: We have signed orders for $208 million in Q1, out of which renewals are $170 million, and new orders were $38 million. Out of these orders we will service within this year $159 million and the balance $49 million is for greater one year. This quarter has seen the strongest contract closures over the last five quarters. Given the above, In Q2 based on the strong funnel which we have, and the strong contract closures in Q1, we believe our growth in Q2 will be better than the growth demonstrated in Q1. Based on the strong pipeline which we have and the strong contract closures overall for FY16, we maintain our assessment that we will beat NASSCOM estimates of 12% to 14%.

Now let me pass on to my colleague Jagan to share a few other Financial Highlights.

Jagannathan Chakravarthi: Thank you, KK. Good Evening, all. In Q1, our revenue grew by 4.9%, volume increased by 6.4% and pricing realization decreased by 1.5%. We see pricing stable; the decline is mainly due to a higher number of working days, smaller IP revenue and cross currency impact. EBITDA margins are at 17.6% as compared to 19.4% in Q4. Net currency benefit was 0.5%, therefore, on a constant currency basis, the margins are at 17.1%, and the decline in margins are mainly due to visa cost. Consciously, we have applied for more visas due to the good pipeline we are seeing and to make sure` delivery is not impacted. FOREX gain in Q1 is $3.2 million mainly due to debtors' translation. The rupee depreciated to 63.64 as on 30th June as compared to 62.5 on 31st March. The effective tax rate is 22.4% as compared to 22.7% in Q4 Financial Year '15. The PAT for the quarter is 14.1% as compared to 14% last quarter. PAT increased by 5.5% quarter-on-quarter. EPS is at 16.45 quarter-on-quarter increase of 7.4%, growth in EPS continues to be ahead of our revenue growth. Our DSO is 69 days as compared to 67 days last quarter. Our utilization including trainees is 70.3% compared to 70.2% in Q4. The utilization excluding trainees is at 71.9% as compared to 71.1% last quarter. Hedges as on 30th June is at $39 million at average rate of 64.7. These hedges are rolling 3-month basis and will expire in Q2. This includes hedges of Euro-INR of 4 million at 72.4, and GBP-INR hedges of 2.5 million at 100.8. CAPEX spend for the quarter is USD5.5 million. Cash position is at $130 million.

The Board of Directors at its meeting held on July 16, 2015 recommended an interim dividend of 30% that is Rs.3 per equity share of par value of Rs.10, for the quarter-ended June 30, 2015.

Some points on Margin Outlook for Q2 and for Financial Year '16. For Q2, as KK indicated, we see the revenue momentum being better. However, there are some head winds in the form of salary increases to 72% of our people. The salary increases will be about 9% of our offshore and about 3% for onsite on an average. This impact will be about 2% on our margins. We also expect about 450 campus people to join this quarter. However, the absence of visa cost and the revenue momentum will more than offset the headwinds and therefore we see Q2 margins would be better than Q1. The full year on year-on-year basis, as indicated earlier, our margins will be impacted due to continued investment in Digital and facility expansion cost. This does not factor impact of currency fluctuations and acquisitions announced.

Now, I hand over back to Sushanth.

Sushanth Pai: Inba, you can start the Q&A Session.

N. Krishnakumar: Before starting the Q&A if there any questions for James, I would appreciate if you can ask them now, because he has to leave for another call in about 10 minutes.

Moderator: May I check with the participants?

N. Krishnakumar: Yes, please go ahead.

Moderator: Our first question is from Manik Taneja of Emkay Global. Please go ahead.

Manik Taneja: This question was with regards to the various moving parts that impacted margins in the current quarter. We have seen revenue productivity both onsite and offshore decline in the last couple of quarters, while gross margins have still held steady, if you could talk about that aspect? And the second question was with regards to the strong performance that we have seen in our top customers across the board. If you could give us some sense on the spending trends within your top customers especially in the context of this pressure that we see in a couple of large accounts in the recent past?

N. Krishnakumar: Manik, I probably did not understand your first question, but let me react on the top customer. I think clearly as we had articulated our strategy, we continue to focus on our key clients and Rostow is really sort of driving the focus on some of the key clients. Particularly, in our top customer, I think we have enlarged the scope of services beyond just Product Engineering Services in some of the key priorities like the move towards the Cloud, I think we are playing a very key role because we are involved in very strategic sort of impact with this customer, the revenue continues to grow very strongly. But it is not just the top clients; we have seen our $50 million customers have grown to two during the quarter. So clearly across our key clients we continue to play a very key role in some of their strategic priorities and that is clearly driving the growth on both of our top-5 as well as top-10 clients. I probably did not understand your question on revenue productivity. Like we shared in the last quarter, we do see in the transition to Digital, in the early engagement phase, work being done onsite, so which is why even last time we had shared saying that you will see some increase in our onsite effort delivered, which is what is reflecting even in the current quarter.

Manik Taneja: So my question essentially was on the revenue productivity number, which is actually your onsite revenue was divided by onsite volumes and a similar calculation for offshore revenue productivity as well. So on that metrics one has seen a (+3%) sequential decline in our offshore revenue productivity in the last couple of quarters. Just trying to understand what is driving that and how are you protecting margin despite this impact?

N. Krishnakumar: Manik, again, really if you see this, the volume number is really dictated by a number of days as well, because even in fixed price project, if the number of working days in a quarter is larger, the volume numbers will go up. So in a way what you are talking about realized rate is not a pricing decline at all, it is clearly a realized rate. We are not seeing any pressures on pricing at all. While we see the pricing stable, the decline is primarily due to a higher number of working days, the IP revenues have become smaller this quarter, so that also impacts the revenue productivity, and there is a cross currency impact also.

Manik Taneja: With regards to your outlook for the full year, this 12% to 14% revenue growth that NASSCOM has actually guided for and you are indicating that you will grow faster than that, is all ex of the recently announced acquisitions?

N. Krishnakumar: Absolutely, that is without the two acquisitions which we announced today.

Manik Taneja: When do you expect to integrate these acquisitions?

N. Krishnakumar: Immediately.

Moderator: Thank you. Our next question is from Karan Taurani of Religare Capital Markets. Please go ahead.

Karan Taurani: Just want to know the margin profile of Bluefin Solutions. You said they are lower than Mindtree. So, are they in the mid-teens or are they are in a single-digit?

N. Krishnakumar: Karan, we do not divulge individual margins profiles. Just to give you a sense, clearly, like I said, at this point in time, the margin profiles are lower than Mindtree, but at the same time we do believe the organizations together can create synergy and we will be able to make the margin profile improvement. Also, you should understand this is a high value consulting business which is led with a strong presence onsite, consequently, the billing rates are also higher, and the costs are also higher.

Karan Taurani: So, when do you see margins coming back to Mindtree levels?

N. Krishnakumar: Again, I think it is very difficult to make a guess, the profile of the business itself is very different, but obviously, I think with the integration we leverage every opportunity to synergize and try and see how we improve the margin profile, but we would not like to give a guidance or forecast or even an assessment as far as the margin will get equal to Mindtree.

Karan Taurani: About the salary hike next quarter, the negative impact is 200-basis points for the 72% of the employees, the balance would come in Q3, right, if I am not mistaken?

N. Krishnakumar: That is right, the balance will come in Q3. It is slightly about 200-basis points for Q2.

Karan Taurani: Any other headwinds for the next quarter in terms of margin apart from the acquisition and the salary hike?

N. Krishnakumar: Nothing.

Moderator: Thank you. Our next question is from Omkar Hadkar of Edelweiss. Please go ahead.

Sandeep: Sandeep here from Edelweiss. A couple of things; First, on the Digital side. As we are seeing that a lot of action is happening in that area, so what is your sense that slowly are you seeing a trend where the average size of deals are actually going up? I am not saying that they have to be very big right now, but are you seeing some kind of trend where the average deal size are increasing quarter-on-quarter in the industry itself on Digital? Secondly, do you see that going forward because what I understand is that there could be a phase where there will be a mismatch between demand and supply of relevant people, we see lot of literature on data scientists and other things also coming every day, so do you see that it may trigger a high replacement cost kind of cycle for a short-term in the industry?

N. Krishnakumar: I think great questions, Sandeep. The question on the average size of deal in Digital is very relevant, so that is something which we have been tracking. Between March and June the average size in Digital has grown by about 15%, so clearly we see that it is getting on to a band where the deal sizes are increasing, which is also reflective of the median sizes in Digital, that has also shown a growth between March and June quarter. The funnel is obviously quite healthy; we have a little over $100 million of funnel just in Digital alone. On the people, what we do believe is I think if you look at particularly the experienced profile, it is not that there is talent available internally or for that matter in the market, which is why last quarter we shared one of our single largest investment is in our global learning and development center where we have really created both the physical infrastructure as well as the content and pedagogy to really train people on Digital Technologies, and clearly, we anticipate that is going to provide us the approach by which we will get a larger pool of trained people with the Digital Technologies. The third element on capacity to execute on Digital is we shared that clearly in the early phase of the engagement in Digital we need people to work closer to the client, which means really in the markets itself. So anticipating that we applied for a higher number of visas. Yes, our visa cost has gone up this quarter because of that, but we anticipate that in the second half of the year, we will have adequate capacity to meet the increased demands in Digital.

Moderator: Thank you. Our next question is from Yogesh Agarwal of HSBC Securities. Please go ahead.

Yogesh Agarwal: Two questions from me if I may. My question was that with this HANA capabilities, would you see synergies on the upgrade cycle for S4 because it seems this is a big upgrade in the past 20-years for SAP and one of the basic needs is first to do the HANA transition and then the upgrade. So, would you see some big cycle of upgrades and you participating in that as well?

Rostow Ravanan: I completely agree with you. That is the same trend we are seeing in the market. Early discussions with many of our existing customers who have been longstanding users of SAP are already talking about HANA, and a lot of traction even in I would say relatively small market like India where SAP has done multiple HANA implementation. In our discussions with SAP, SAP indicates that this could be something like $40 billion dollar market of migrating existing SAP installations to HANA. So we clearly are very excited about the opportunities in front of us with this acquisition, plus some of this was been driven by Mindtree even in the past, but now we have a really-really specialized team to be able to drive it even further.

N. Krishnakumar: The other thing, Yogesh, is, since you have tracked us in terms of what we are doing, I think a lot of the current investments in Digital are happening in the front end of the value chain which is really to improve the customer or the consumer experience, and clearly, we have taken a leadership position in that.

As like Rostow said, when people start migrating the back end to more a digital infrastructure, one of the key elements of that is to change existing R3 type of implementation or ECC implementation on to HANA, and now with Bluefin, I think we are very-very competitively positioned to be a preferred partner for any customer doing the transition.

Rostow Ravanan: And what also further adds to our messaging is if you see the press release we made today, we have got an endorsement from SAP itself for this transaction, which shows the amount of confidence that Bluefin enjoys with the SAP ecosystem that gives us that much more excitement in terms of being able to solve problems for customers.

Yogesh Agarwal: Of the 1,200 HANA customers today of the 40,000 SAP customers front, are these large customers or are these SMEs as of now?

Rostow Ravanan: Predominantly, large enterprises right now, because HANA is also not a very small solution from a cost point of view, predominantly it is large enterprises which are doing the migration to HANA or considering S4 HANA as a new implementation wherever they are looking at new implementation, or using HANA for point solutions like analytics, etc.,

Yogesh Agarwal: On margins, you guys mention that FY16 will be a bit lower compared to FY15 for all the investments. What about going forward? So can margins recover to the last few year margins in FY17 and FY18 or there will be continuous investments in the subsequent years ahead?

N. Krishnakumar: Yogesh, again, it is difficult at this time to sort of see, because one, I think this certainly involves seeing ahead, how is it that the whole Digital market is going to pan out. When we saw this trend that the backend Digitization and really trying to get the place in the migration of the backend is going to be important, we started addressing in terms of how do we quickly scale up this capability, and to a large extent if you really see, we shared that the margin profile of Bluefin is certainly lower than Mindtree and it will be dilutive. So what is the next piece which we see ahead in this whole journey and what impact it will have on our margin today is difficult to sort of forecast, but as and when we get a view of it, we will certainly share it.

Moderator: Our next question is from Mohit Jain of Anand Rathi. Please go ahead.

Mohit Jain: Can you give us the revenue contribution of Discoverture for this particular quarter?

Jagannathan Chakravarthi: Jagan here. It is about $3.75 million this quarter.

Mohit Jain: If we exclude Discoverture for the last two quarters, then what would be our constant currency growth?

N. Krishnakumar: Discoverture did not significantly change constant currency, my guess it is about 70 basis points. So without Discoverture or if you take Discoverture, the same level of last quarter, our constant currency growth would have been 4.5%.

Mohit Jain: After a strong start, you are still not comfortable increasing your full year guidance despite significant wins in the Digital side and increasing contribution there. So any specific reason for that or any specific piece where you expect some slow-down in the next 2-3 quarters?

N. Krishnakumar: We actually do not give a guidance, so to that extent we are giving whatever we see of the market and what are the opportunities and how are we addressing the opportunities.

Jagannathan Chakravarthi: Clearly, KK has mentioned in his statement also about the next quarter's possibility, next quarter revenue growth will be better than this quarter.

Mohit Jain: That is why I was a little surprised on your maintaining full year guidance despite two strong back-to-back quarters.

N. Krishnakumar: What I said is clearly we maintain our position of beating the NASSCOM industry guidance of 12% to 14%.

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

Sandeep Shah: Just a question in terms of the margins like if we look at the full year of FY15 the EBIT margin was 17.1% and for the first quarter the margin is 14.1%, so there is a gap of almost like 300-basis points and in the coming quarters also we are expecting this kind of a margin to be maintained. So, is it fair to say that the pressure on the margin could be material in the FY16 as a whole and thereafter we may able to recover it?

Jagannathan Chakravarthi: We have clearly mentioned that our continued investment in Digital and our continued investment in facility which will result in some amount of pressure on the margin front, in fact in my statement I have reiterated the same point.

Sandeep Shah: Just in terms of the billing rate, I do agree that we are not foreseeing, but this is the second consecutive quarter of more than 3% QoQ dip in the offshore billing rate despite our IP as a percentage to the revenue has remained at 1.6% to 1.7% and the Services like Digital as a percentage to the revenue has been going up. So I fail to understand why this continuous dips which are happening in the offshore rate, which is one of the lowest I believe in the last 7-8 years?

Rostow Ravanan: The quick answer to that is you should not see it as billing rate, it is realized rate, which is an implication of what contracts you win and so on and so forth, but also a function of the number of billing days in a quarter and the change in mix of fixed price and T&M proportion. So it is not to be seen as billing rate.

Jagannathan Chakravarthi: Not only that, the last two quarters cross currency impact has been there. That is also one of the factors for this.

Sandeep Shah: On the fixed price, generally we have seen that as the percentage to the revenue goes up, there is more revenue productivity which comes into picture and that is where most vendors are looking from migrating from time and material to fixed price also. So for us, the fixed price has been consistently moving up.

Rostow Ravanan: Correct, if there are a higher number of fixed price and there is a quarter in which there are more working days compared to the previous quarter, then the same revenue gets divided by a larger number of hours so that will lead to a fall in realized rates. So it is a combination of therefore two or three factors which is why therefore we do not like to see it as a change in billing rate. The commentary from customers and our own performance has been that pricing will be stable, we are not seeing a fall in billing rates with existing customers and we are also not seeing a material change in the realized rates with new customers as well.

Sushanth Pai: Also, Sandeep, if you see on a year-on-year basis, I think the rates have actually overall increased. In a quarter-to-quarter the phenomenon because of various factors, but on an overall basis, the rates have increased and I think you need to see it from a holistic perspective, that the onsite and offshore proportions are also varied.

Sandeep Shah: But Sushanth, what I am talking is individually for the onsite and the offshore, I am not talking about the blended billing rate as a whole, that is what. So even if you look at the offshore on a YoY, it looks like there is a dip in the rates, that is why. Second question, outlook for FY16, are we also including Discoverture within that or we are saying organic excluding all the three recent acquisitions?

N. Krishnakumar: No, no, Discoverture is included because that was something which we concluded last year, so the full financial year it is inclusive of Discoverture, but not the two acquisitions which we announced today.

Sandeep Shah: In terms of visa cost, can we get the absolute figure for this quarter?

N. Krishnakumar: The absolute number is about 3.3 million, which has contributed to about 230-basis points of impact on the margins.

Sandeep Shah: Same number for the last year can we get it if you have …?

Jagannathan Chakravarthi: Last year it was about 2.4 million, and I am not very sure how much it had an impact on the margins.

Moderator: Thank you. Our next question is from Utsav Mehta of Ambit Capital. Please go ahead.

Utsav Mehta: I think right at the beginning I missed a couple of data points; one was you mentioned the constant currency margin for this quarter.

Jagannathan Chakravarthi: Constant currency margin for this quarter is 17.1%.

Rostow Ravanan: The cross currency impact in this quarter was 0.5%.

Utsav Mehta: The growth in digital sequentially?

N. Krishnakumar: 12.7% quarter-on-quarter.

Utsav Mehta: When you said that the 2Q margins are likely to be better than the first quarter, is that on organic basis or are you including the impact of acquisitions on that?

N. Krishnakumar: It is on organic basis.

Utsav Mehta: So the impact of the acquisitions would be additional on top?

N. Krishnakumar: Yes.

Moderator: Thank you. Our next question is from Deepesh Mehta of SBICAP Securities. Please go ahead.

Deepesh Mehta: Sir, I have two-three questions; First is can you help us understand past track record of both the acquisitions in terms of revenue, margin and in terms of how client addition happen because both the space is relatively new areas so if you can provide some colors about how those companies performance evolves over a period?

Rostow Ravanan: If you see the comments, KK started the discussion with both of them had very high growth over the last two or three years, meaning both of them had upwards of 20% growth annually over the last two or three years.

Deepesh Mehta: In terms of margin, whether with growth margin behavior change or it remains more or less similar because of the investment and other thing?

Rostow Ravanan: Both has led to improvement in margin as well for both businesses. Of the two, the Relational business is more profitable because it is more IP-led, whereas as the Bluefin business is larger and is also a high growth business, but because it is more consulting and onsite-centric, the margins of the Bluefin business is lower.

Deepesh Mehta: Just to get more sense because 20% if we see the space which is growing much faster, so whether we are happy with this 20% kind of thing or we expect growth rate to further improve once we see synergy with the Mindtree kind of thing?

Rostow Ravanan: Obviously, we are excited about the synergies and we want to drive high growth, but whether it will be 20% or 18% or 22% it depends on how many synergies can get realized in what periods of time, there are tangible plans, as there are different types of synergies, there are many synergies that have already visualized and have a very detailed action plan to track, the details we will update you quarter-after-quarter.

Deepesh Mehta: One clarification, I think I missed, in Q2 margin guidance because we suggested it would be better than Q1, but whether we already factored in acquisition impact also?

N. Krishnakumar: No, it is only organic.

Deepesh Mehta: That would be over and above what we said and when we say about FY16 margin outlook, this acquisition would be incremental impact, right?

N. Krishnakumar: That is right.

Deepesh Mehta: This quarter we have seen significant improvement or growth momentum in Digital side. So if you can provide some colors about what has been that kind of growth because earlier also we provided good colors about Digital, but this quarter is the significant growth quarter compared to previous 2-3 quarters?

N. Krishnakumar: Clearly like I said earlier, we see the growth momentum in Digital being strong, particularly, in the industry segments in which we are in, I think there is a lot of investments being planned on primarily improving the consumer experience, be it Retail, CPG or Property Casualty Insurance or Insurance particularly, and in Travel and Hospitality. The overall size of the Digital is greater than $100 million as of now. What we have also seen on a quarter-on-quarter basis is the average deal size has improved by almost 15%. To the extent, we believe that clearly the growth momentum in Digital will continue because one, we see the average order value improving, not only the average but the median order values also improving. The price and strength of the funnel is very-very strong. And with new acquisitions like both Bluefin as well as RSI, we have additional opportunities to address some areas in the whole Digital value chain.

Deepesh Mehta: Sir, why I specifically ask is if we see let us say Retail, CPG Manufacturing, Travel and other things, this quarter cumulative growth is not showing similar kind of growth what we see in Digital? So if you can help from vertical perspective that would be helpful because the similar growth is not reflected into the vertical which you suggested for this quarter at least?

N. Krishnakumar: Clearly, what is happening is while some of this vertical consume a large part of the Digital Services and consequently the growth is higher than what they have shown, in the traditional services the renewals are coming up which is really 'run the business' there is certainly pressure on being more competitive. So, if you look at traditionally Enterprises spend 65% of the budgets on running the business, there is demand from customers for being more cost-competitive. So, there is a compression wherever there are opportunities getting renewed there. So overall, I think the vertical revenues represent a mix of both existing service lines as well as Digital.

Moderator: Thank you. The next question is from Shrivatsan Ramachandran from Spark Capital. Please go ahead.

S Ramachandran: Just wanted to get slightly more detail on the acquisition; One is on Bluefin, how do you see the vertical exposure for Bluefin vis-à-vis Mindtree? Would majority of revenues be aligned with our verticals or majority of revenues are being verticals where as a strategy we are not focusing on? Second is either on a standalone basis or a cumulative basis with these two acquisitions, would it be fair to say that it will be an EPS-dilutive acquisition for FY16 at least?

Rostow Ravanan: I will take both the questions. Both acquisitions will be EPS-accretive for FY16, both of them are profitable, so therefore, we do not see either of them being EPS-dilutive for us for FY16. On the first question, Bluefin has a very small customer segment in Energy and Utilities which Mindtree is not present, but the bulk of the business is in Consumer Product Goods, which is completely aligned to our existing vertical.

S Ramachandran: In terms of the Digital we have seen and we have been investing consistently. In terms of the fair to say, what are the key aspects on which clients pick vendors or pick partners, what would be the top-2, 3 and it will be helpful if you can just give an overview of if we lose a contract, who are the typical players whom we lose out to?

N. Krishnakumar: Like I said clearly, a lot of the investments currently are happening in the front end of the value chain which is really improving the consumer experience. We do start seeing, customers are also starting to think about how do they digitize the back end of the value chain which is where clearly Bluefin acquisition place us in a very competitive position. In terms of competition, in the front end of the value chain, I think clearly we see companies like Accenture or any of the big Indian players, as well as new players are coming in like Sapient or the Publicis sort of companies, which have come in more from a creative background but have acquired technology capability.

Moderator: Thank you. The next question is from Madhu Babu of Centrum Broking. Please go ahead.

Madhu Babu: Sir, how do you see the effort mix? With most of the growth happening in Digital, already onsite has been increasing steadily, so, where do we see that stabilizing?

N. Krishnakumar: I think if you look at the whole way in which like last time we shared the maturity cycle of a client in Digital. In the early parts, I think, clients are experimenting with a lot of ideas where there is co-creation, where there is work to be executed close to the customer. So there will be an increase in the onsite efforts. As the experiments move to what they identify as an initiative to run when they move to a phase roll out, the efforts will start becoming more balanced between onsite and offshore. And in the third stage of maturity, when they really reach a mass roll out then it becomes like the typical services which we deliver today. So, it really depends on the portfolio of clients like if you take in the last quarter our 14 new customers we acquired, 6 of them were in the Digital space, so we anticipate in the next 2-quarters onsite efforts will be higher for those 6-customers. But, over 2-3 quarters, they will move on to more balance sort of mix. So it is really dependent on the number of new clients we acquire and even within our existing customers what stage of maturity they are in the stage of adoption of Digital.

Madhu Babu: Can we expect more acquisitions because the last two quarters I think we have done already three acquisitions, with the focus on Digital, so can we expect more bolt-on acquisitions over the next six months?

Rostow Ravanan: Difficult to tell because it is a function of our strategic priorities plus also availability in the market. So maybe something will happen, maybe something will not happen. As and when we close anything, we will update the investor community.

Madhu Babu: Would the 9% wage hike be enough considering the various startups and captives are hiring in the Bengaluru market?

Jagannathan Chakravarthi: From a wage hike point of view, we have taken a more business stand to protect our people. If you look at the wage hikes that we have given on an average of 9% is better than most of the companies from whom we hire people from. To that extent, I think it is a good wage hike for Mindtree Minds.

Moderator: Thank you. The next question is from the line of Sangam Iyer of Shubkam Ventures. Please go ahead.

Sangam Iyer: I just wanted a couple of data points from you; One, being that the recent acquisitions that we have done as illustrated by KK it is predominantly onsite-centric, right. Could you give us some light on can we improve on the margin front on these acquisitions over a period of next 12-months to 18-months?

N. Krishnakumar: I just like to correct the Relational Solutions a very IP-led business. So to that extent it need not be onsite-centric because there is a IP which is really leveraged, some part of the services, it has to be delivered onsite, which is why we find the margin profile of RSI being better than Mindtree. Bluefin is a high end consulting type of business. That model, yes, will be still onsite-centric, but clearly, we are identifying synergies and what part of the value chain can we bring offshore and clearly the intention is to see over a period of time how do we try and identify the right work package that you can do offshore and improve the balance of onsite-offshore there. But, clearly, that part of the business will be more onsite-centric and consequently, margin profile will be lesser than Mindtree.

Sangam Iyer: In a different way to put it, like what Shrivatsan asked in a previous question, when do you think that we would reach the stage-2 and stage-3 in terms of contribution from Bluefin wherein Mindtree as a group can start to monetize on the consulting capabilities of Bluefin?

Rostow Ravanan: It will take time. The plan is in place which is a detailed integration plan and like we explained a part of the margin improvement will come through revenue synergy and a part will be through cost optimization. But, it is difficult to predict as of today, whether all of those will be implemented within one quarter, two quarters, four quarters, but the game plan is to help improve the margins and we definitely have a high degree of confidence and there are enough synergies that will allow us to improve the margins.

Sangam Iyer: Could you give us some idea on some low hanging margin levers here, which could help us in the integration process?

Rostow Ravanan: So, I said the revenue synergies have top synergies. Our solutions to their customers plus enhancing their reach into newer markets and also to take Mindtree services to their customers plus on the account side in terms of bringing some work offshore, driving for example, common functions, common SG&A, cost leveraging, etc., all of those should be typical work which we experience on the both sides.

Moderator: Thank you. The next question is from Pratik Gandhi of GeeCee Investments. Please go ahead.

Pratik Gandhi: We see that last three quarters Europe has been declining. I think last quarter can be attributed towards slightly on the currency side. But, is there any specific verticals or client-specific issue which is bothering us?

Rostow Ravanan: It was predominantly due to business pressures faced by one of our large customers in Europe which made them cut down on some of their priorities and we explained this during the call last quarter. The challenges with that customer should continue for one or two more quarters till their business stabilizes; however, from Q2 onwards, if everything goes as per plan, we expect Europe to come back into growth momentum, because the amount of new wins that you had both with the existing customers as well as some of our other new wins, should offset the revenue decline in this one customer. Our pipeline today is extremely strong. So that is why we believe if everything goes as currently planned, Q2 should be a growth quarter for Europe.

Pratik Gandhi: Rostow, which vertical this customer pertains to?

Rostow Ravanan: There is a group that we have called 'Others' which is outside the four focus verticals, the customer where we are facing problems in the 'Others' vertical.

Pratik Gandhi: Can I have revenue from Relational Solutions?

Jagannathan Chakravarthi: $3.2 million.

Pratik Gandhi: Bluefin is around $45 million?

N. Krishnakumar: It is £29 million.

Pratik Gandhi: Do these businesses along with Discoverture have any seasonality in terms of quarterly revenues?

N. Krishnakumar: Again, like I shared, Bluefin is clearly a high end consulting project type of business. So there will be some level of seasonality. And Relational Solutions also is a very IP-led business. So one would anticipate till we are able to get into the depths of the business and try and manage seasonality, there would be some level of volatility.

Pratik Gandhi: Sorry, Where I was coming from is which quarters typically tend to be better for this? I can understand that IP-led revenue, so probably the quarter in which you are basically selling licenses would see bump up in the revenue. But, in general, any trend where say, Q1, Q2 is better than Q3, Q4, anything would be helpful?

N. Krishnakumar: Right now we do not have that feel, I think that is a good question when we sort of understand that we will certainly share it with you.

Pratik Gandhi: Any outlook in terms of how you want to take up utilization rate going forward?

N. Krishnakumar: Clearly, at this stage, we believe that there is a strong pipeline which we have. We see strong demand. So, actually, next quarter we will be adding capacity. So you might find some marginal dip in utilization but during Q3, Q4, we will put in efforts once we have created the capacity because earlier if you have seen Jagan's comment, we on a conscious basis decided to apply for a larger number of visas, because in the early cycle of digital transformation, we need more capacity onsite. So we are wanting to use half year one to create the capacity so that clearly we can leverage the strong contract closures and the pipeline to generate revenue in the second half of the year. So we will see utilization moving up during the second half of the year.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor back to Mr. Sushanth Pai for closing comments. Over to you, sir.

Sushanth Pai: Thank you, Inba. Thank you, all for joining the call and we look forward to speaking with you in the coming days.

Moderator: Thank you, members of the management. Ladies and Gentlemen, on behalf of Mindtree Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.