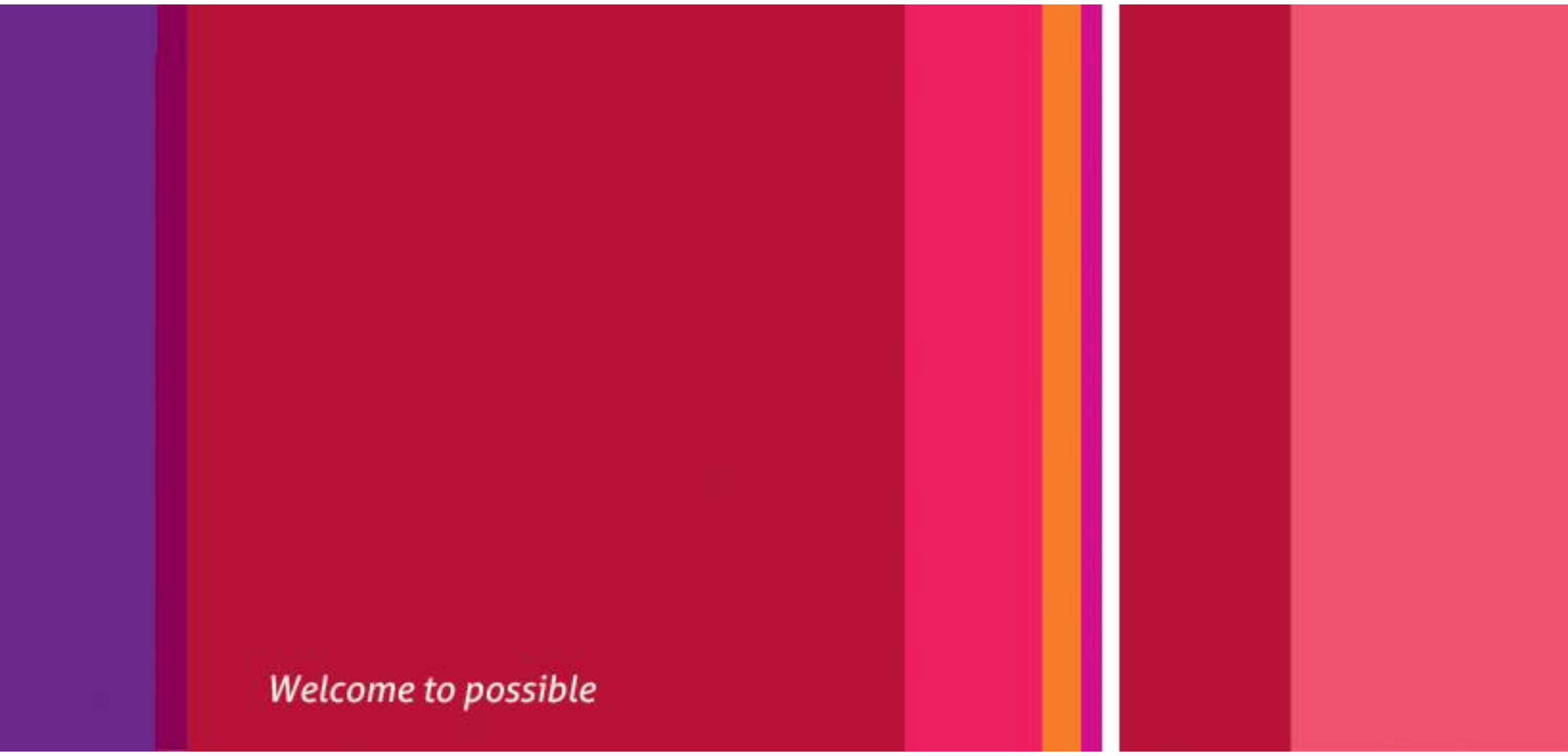
# Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

First Quarter ended June 30, 2017

July 19, 2017



**Moderator**: Ladies and gentlemen, good day and welcome to the Mindtree Limited Q1 FY '18 Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. In case 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, Aman. Welcome to this conference call to discuss the financial results for Mindtree for the first quarter ended June 30th 2017. I am Sushanth, Head of Investor Relations.

On this call, we have with us senior management team;

Krishnakumar Natarajan – Executive Chairman;

Rostow Ravanan – CEO and Managing Director;

Parthasarathy N.S. – Executive Vice Chairman and COO;

Jagannathan Chakravarthi – CFO;

Ramesh Gopalakrishnan – Global Head of Delivery and Operations.

The agenda for the session is as follows; Rostow 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 introduced an audio webcast, some of you may have joined the webcast. The webcast is a listen-only mode, but you can post questions. We will take the webcast questions once we complete the questions through the conference call mode. Please note that this call is meant only for 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 Rostow.

**Rostow Ravanan:** Thank you, Sushanth. Good evening to all our friends in the investment community. I'm very happy to share with you that we have begun the financial year on a good note and our revenues crossed $200 million this quarter. This reflects Mindtree's resilience in a dynamic global business environment and we are well-poised to address the changing technology landscape and help our customers become successful.

On a standalone basis, our revenues grew 4.1% quarter-over-quarter, which is about 2.5% year-over-year. On a constant currency basis, the standalone growth was 3.1%. However, due to revenue decline in Bluefin and Magnet 360, our consolidated revenue growth was 2.3% quarter-over-quarter and 0.6% y-oy on a consolidated basis.

Amongst verticals, the BFSI business grew 4.1%; Technology, Media and Services business grew 3.5%; Retail, CPG and Manufacturing business grew 0.7% on a consolidated basis, but if we exclude the impact of the revenue decline in Bluefin and Magnet, our Retail, CPG and Manufacturing business grew by a robust 6.3%, driven mainly by some of our new wins.

Travel and Hospitality was the only vertical, which showed a small decline. Amongst geographies, our US business grew by 2% and Europe grew by 3.6%. Our Digital business had a very strong performance with a 9.3% growth on a quarter-over-quarter basis and 6.7% on a year-over-year basis. With respect to our other service lines, Infrastructure Management continued to show a strong growth this quarter as well with a 5.7% quarter-over-quarter growth and a 15.2% on a year-over-year basis. At the quarter-end, we had 336 active customers.

We added 20 new clients in quarter one and our list of $5 million clients has grown by three, taking the count to 33. Our one million dollar clients has also grown by two, taking the count to 113. We are also very pleased to report that our trailing 12-month attrition has further reduced to 14% as compared to 15.1% last quarter. Quarterly annualized attrition was 13.4%.

We have 16,561 Mindtree Minds at the end of the quarter, reflecting a gross addition of 645 people in this quarter. We had some strong multi-year, multi-million dollar wins in this quarter and some of the ones that we like to highlight are the first one, we have been engaged to build an end-to-end digital transformation capability for a leading technology company in the travel industry. We have also been engaged to provide managed services across multiple platforms for a leading semiconductor company.

And the third noteworthy win in this quarter is an opportunity to implement Duck Creek products across policy, billing and claims systems for a large property casualty insurance company. These wins reflect our strong expertise and that is getting traction across the markets that we serve. We continue to see strong contract closures. In the quarter, we signed contracts worth $262 million, of which renewals were $219 million plus our new contracts were $43 million. Contracts to be executed in less than a year was $ 198 million and contracts greater than one year were $ 64 million.

We would also like to specially highlight digital contract wins was very strong at $ 108 million, which is the highest we have had so far on a quarterly basis since we started reporting this number. Our pipeline in organic business continues to be strong and has grown by approximately 19% compared to the previous quarter.

Digital also continues to do well and the pipeline in digital has increased by 33% compared to the last quarter, both of which are a reflection of our capabilities and the marketplace response to our capabilities. Some of our top 10 customers continue to see some volatility. However, we are growing the customers outside the top 10 list and therefore some of those customers have now entered into the top 10 category.

We are continuing to face some challenges within our acquired entities due to lower business predictability, but we are focused on these issues and through a better integration and tighter execution, we think we will be able to make quick progress on these issues.

In light of the above, our outlook for this year has changed compared to what we shared with you at the beginning of the financial year. At a consolidated level, we believe our growth will be in the high single-digit range compared to the low-double digit range that we explained in the beginning of the year. However, the organic business will continue to do quite well.

With this, I will pass on to my colleague, Jagan, to share a few other financial highlights.

**Jagannathan Chakravarthi**: Thank you, Rostow. Good evening all. Before I begin my quarterly update, I would like to share with you some important updates. Effective 1st April 2017, we are using daily rate for conversion of Forex transaction instead of previous month end rate being used for subsequent month. This does not have any significant impact on our P&L. This is majorly done to align with the best industry practice. We have received an approval for amalgamation of Discoverture and Relational Solutions. Consequently, the financial results of the entities are part of Mindtree standalone this quarter. And the related for the prior quarter has been restated since the appointed date was April 1st, 2015.

In line with our earlier indication to evaluate the options apart from dividend to enhance shareholder value, we have announced the buyback scheme on 28th June, 2017. The details of that have been shared earlier by us. In the process of the buyback, the following steps are involved. We are awaiting for SEBI comments on Draft Letter of Offer. Once this loop is closed, the Letter of Offer will be sent to the shareholders. The offer will open for 10 working days post which the payment to shareholders and other formalities are expected to be completed as per SEBI prescribed guidelines. We will continue our overall approach towards enhancing this stakeholder value.

One more update is, this quarter the Forex gain has been grouped along with other income and Forex loss is grouped with other expenses. Accordingly, the financial statement has to be read.

Now coming to the results update. In Q1, our fee revenue grew by 2.3% with volume growth of 3.7% and price realization decreased by 1.4%, mainly due to decrease in onsite revenue. Pricing is overall stable. On standalone basis, Mindtree EBITDA margins are at 13.3% as compared to 16% in Q4. The main impact for visa cost of 150 basis points, currency impact of 90 basis points. Including subsidiaries, EBITDA margin are at 11.1% as compared to 14.2% in Q4. The lower margin is mainly caused by Bluefin Solutions, which had a decline in revenue and also increase in costs due to overrun in one of the projects which resulted in negative margins.

For the quarter, the Forex gain has been $295,000 compared to a Forex loss of $3.4 million in the previous quarter. PAT for the quarter is 9.4% as compared to 7.4% to the last quarter. EPS is at Rs. 7.24, which is a quarter-on-quarter growth of 25.3%. The effective tax rate for the quarter is 23.5% compared to 22.7% in Q4.

I am happy to state that our cash flow management has been strong due to the following. We have achieved the best ever DSO of 57 days. DSO in Q4 was 65 days. Other initiatives in the effective working capital management leading to strong EBITDA to operating cash flow conversion at 132.6% and free cash flow is at 108.8%. Our utilization including trainees has improved to 73.2% as compared to 70.9% in Q4. Hedges for the quarter is at $37 million at average rate of 65.32.

Some points on margin outlook. We will have a salary increase for about 70% of the people, effective 1st July 2017. The average salary increase will be 5.5% for offshore and 1.8% onsite. The impact will negate the absence of visa cost in Q2. About 510 campus minds are expected to join us in Q2. As mentioned earlier, we will have about 1,200 graduates expected to join us this year.

We will also have the impact of cost of buyback transaction, which will impact in Q2. Driving profitability continues to be our priority and focus. Therefore, at Mindtree standalone basis, our aspiration is to increase margin for the full year. However, due to volatile nature of the business performance of subsidiaries, we will update you on consolidated margin as we progress. We are taking many measures in terms of integration and cost optimization.

With this, I conclude my update.

**Sushanth Pai:** We can now invite questions.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Vishal Desai from Axis Capital. Please go ahead.

**Vishal Desai:** Hi, thanks for the opportunity. Jagan, just wanted to understand the margin breakup that we gave firstly during the quarter that has gone by, it is close to around 300 basis point dip that we are seeing. If I could understand you correctly, you mentioned visa costs impacted 150 basis points and currency headwind was around 90 basis points, is that correct?

**Jagannathan Chakravarthi**: Yeah. You are right.

**Vishal Desai**: And the balance was from the Bluefin momentum ramp down that happened?

**Jagannathan Chakravarthi**: That's correct.

**Vishal Desai**: Something related to cost overruns was also mentioned. Is this also pertaining to the Bluefin revenues not ramping up?

**Jagannathan Chakravarthi**: Yeah, you're right. There was an impact on revenue as well as on cost overruns in Bluefin that had an overall impact on the profitability.

**Vishal Desai:** Alright. So from the quarter gone by, at the end of Q4, were we in the same position in terms of Bluefin in terms of expecting a tough quarter or was it looking far better? And if so, then what has changed so dramatically?

**Rostow Ravanan**: Let me take that question. The picture at Bluefin deteriorated during the course of this quarter. So the view that we had at the beginning of the quarter was a little bit more stronger performance, but during the course of the quarter some of the execution issues at one project led to approximately a million dollar reduction in revenue and a million dollar sort of additional cost that we had to book based on the execution failures like I mentioned. So we had not anticipated this in the beginning of the quarter. This reflects all the issues that we faced during the course of the quarter.

**Vishal Desai**: Sure. And thanks, Rostow. And just coming to the outlook in terms of the margin commentary, we are expecting close to around 5.5% offshore hike and a 1.8% onsite hike, right?

**Jagannathan Chakravarthi**: Correct. You are right.

**Vishal Desai:** Would you be able to give us some sense in terms of what could be the margin headwind because of this?

**Jagannathan Chakravarthi**: Margin headwinds will be similar to that of visa cost, Vishal.

**Vishal Desai**: Alright. So that means that being said, we have a 150 bps set off out there, but from a Q2 perspective standalone, if you have to include this what do you see margins at ex-currency. Do we expect a reduction or a move up or a stable outlook? Could you give some sense?

**Jagannathan Chakravarthi**: No, we don't give a quarterly guidance as such, but on a year-on-year basis, on Mindtree organic margins will be better than last year, but on consolidated we will update you later.

**Moderator**: Thank you. We have the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

**Madhu Babu**: Sir, the downgraded revenue guidance implies around 4% kind of CQGR. So are we expecting a pickup from 2Q onwards in terms of deal ramp-ups?

**Rostow Ravanan**: What we mentioned was the organic business at Mindtree continues to do well. And if you remember, we had very strong deal wins in Q3 last year, reasonably good deal wins in Q4 continued again, so have very strong deal wins in this quarter. All of this give us confidence on our growth projection for the rest of this year as well as even over the next two or three years.

**Madhu Babu**: So, we expect good acceleration from 2Q onwards, a kind of 4% CQGR in terms of revenue growth?

**Rostow Ravanan**: I don't want to comment on the percentage growth for any particular quarter because we don't give guidance, but on a full year basis, Mindtree is expected to grow in high single-digit numbers compared to our initial estimate of low double-digit numbers.

**Madhu Babu**: And second on the top client, sir, if you exclude the top client, two to ten, there was a 3% decline quarter-on-quarter. So, we already talked that some of the clients are facing issues there. So has that been done or do you expect there a drag over there?

**Rostow Ravanan**: Two factors to keep in mind, the top 10 that we are dealing with today is not the same customers that we had in our top 10 last year, so these are different accounts today. So the constitution of the top 10 is different. The accounts where we had a problem, our feeling is primarily most of the challenges are over. It is over, because they are no longer the top 10, so they have slipped outside the top 10 at the moment, new accounts have entered the top 10 and we believe there is a good future for us within those accounts.

**Madhu Babu**: Okay. And the last thing from my side, what are the margins in Bluefin and Magnet and I mean what exactly is leading to the cost escalation or revenue weakness?

**Rostow Ravanan**: Both Bluefin and Magnet at an EBITDA level made losses in this quarter. In both cases, there were one-off project level issues and issue was a little bit more serious in our Bluefin business with one project getting into, one large fixed price project also getting into sort of overruns etc. In Magnet's case, I think it is a delay in contract closures in some of the large opportunities that they were chasing. Just a little bit more I would say, just a slippage from Q1 to a future quarter. And in a high fixed cost business, it is just that, that slippage in revenue led to profitability issues at Magnet 360 level.

**Moderator:** Thank you. We have the next question from the line of Mukul Garg from Haitong Securities. Please go ahead.

**Mukul Garg**: Rostow, first on the Bluefin and Magnet 360 subsidiaries. So beyond this specific client related issues, what is the trend for both of them going forward? Are you seeing a) improvement in growth in post potential profitability for the year for Bluefin and Magnet and b) are these one-off issues which happened at clients, are they over now?

**Rostow Ravanan**: Our feeling is like I said, there were one-off issues and the business should bounce back. But this has lot more or shall I say confidence behind the overall Salesforce ecosystem, more pipeline, more conversation with customers. I would say there is a lot more at least from a short to medium term perspective, there is more confidence in our outlook that we have for the Magnet

360 and our Salesforce business, we do see a little bit more uncertainty around the SAP and HANA parts of our Bluefin business right now, unable to make like such a strong sort of confident prediction for that business. However, I think the good part from our perspective is that the talent in both those businesses are very, very strong, great teams, integration is progressing ahead of schedule in both those businesses. And we think we just need to wait it out and start seeing the upside from those investments that we made.

**Mukul Garg**: And the second question was on revenue visibility. The first quarter, you had an impact because of client related delays and the delay in start of new projects. So, has there been any improvement on that? Are you seeing less uncertainty from clients now given that this is the third quarter of good deal wins?

**Rostow Ravanan**: Broadly, yes. If you see, for example just digital had a relatively lesser number of deal wins in Q4 last financial year. But as we know, strongly bounced back and those deals which we saw some delay has started to see ramp ups. So, those continue to be areas of strength for us and our impression is clients continue to prioritize those kind of revenues increase opportunities even within the overall macroeconomic uncertainty that all of us are seeing today. So continue to be very confident about some of those areas, which have been very strong, sweet spots for Mindtree.

**Mukul Garg**: Okay. But in terms of general, on a combined basis, are you seeing more visibility into Q2 compared to what you had at the same time in Q1?

**Rostow Ravanan**: I think it's broadly the same. We haven't seen any major pickup, but there hasn't been any deterioration as well. So I think the short-term outlook is similar as of today compared to what we saw in the beginning of first quarter.

**Moderator:** Thank you. We move for next question that is from the line of Mr. Rahul Jain from Emkay Global. Please go ahead.

**Rahul Jain**: One question regarding the deal data that we share, we see this, the total deal growth has been strong on a trailing 12-month basis. But if I see the data on the deal that is going to expire within one year, that number is coming off and it looks like 3% decline on a trailing 12-month basis. So, is this what is also reflected in the deceleration to certain extent on the business that we have already in the pipeline or already in the deal?

**Rostow Ravanan:** I don't think we are seeing it in that way. I think the ongoing focus is to try and shift as many of the opportunities as we can to larger longer-term contracts, so that's the I would say directional thrust that we are pushing the business towards right now. And even otherwise if you see, contracts ending within one year in Q1 of last year was $209 million and contract ending within one year in quarter one this year was $198 million. So the difference is also relatively sort of marginal. We don't necessarily see that in the same light that you projected.

**Rahul Jain**: I mean maybe a 12-month data is more than a doubt, given that it's a one-year period. And it's not a great number as you said, it's a negative 3% number, but this number moved like from 15%-20% growth to a negative number, is definitely highlighting a near-term revenue softness from a timing point of view, though your long-term data still looks good and it's 8% up. So that was my thing. Apart from that, digital, as we have been seeing probably we had the highest component of this revenue in our total revenue composition point of view versus the peer, but the same is not reflected in the kind of growth we should achieve if we have such a strong portfolio in an area where clients are spending money. So how you correlate the two data, one on the traction on digital end, our performance on an overall basis?

**Rostow Ravanan**: So again like I said, see the breakdown of the numbers, a lot of that data is continuing to reflect in the strong growth of Mindtree if you consider primarily our organic business even if you look at this quarter that grew by 4.1% and our outlook even on a full year basis continues to be strong and we said the updated guidance for the year is more on a consolidated basis. So on an organic basis, I think Mindtree will continue to do well. On the two acquired entities, in one case, there is some project specific issues and broader market softness. In another case, the broader market continues to be strong, which is a delay in deal closures between one quarter to another quarter, but for different reasons both their businesses are going through their own volatility and that's what has led to the change in the outlook from a consolidated Mindtree basis for this year.

**Rahul Jain**: Sorry to be repetitive here, but the acquired entities where we are expecting this softness, if we see the kind of services they are involved, it seems they should have a much better performance than what they are actually delivering. So where is that disconnect?

**Rostow Ravanan:** I think I have mentioned a couple of times, overall the ecosystem sales force as a business continues to be extremely robust. And if you see that from a correlated perspective in terms of opportunities in the pipeline, deal closures etc., broadly the theme is I would say very positive, except that tactically in this quarter, there has been a slippage in some of the deal closures and we think it will come back in a quarter or two. So to that extent, it's a blip, but it's a blip for a different reason. With respect to Bluefin, there are I would say some amount of sales challenges in the overall SAP and HANA ecosystem, but irrespective of that there is also the tactical issue of one customer project, which has led to overruns and now we need to incur additional cost to bring the project back on track etc. So from a different reason to some extent Bluefin is impacted. So in one case there is a broader market positivity and we believe it's just a short-term issue. In another case it's a client-specific issue.

**Moderator:** Thank you. We have the next question from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

**Dipesh Mehta:** Sir, just wanted to understand about margin. We are indicating in standalone, we expect margin to expand for the full year basis. Is it my right understanding?

**Jagannathan Chakravarthi**: On organic basis, yes, Dipesh. Organic basis, the margin is expected to expand between on a year-on-year basis.

**Dipesh Mehta**: So we are referring to constant currency or we expect even in reported we will see expansion?

**Jagannathan Chakravarthi**: On constant currency basis.

**Dipesh Mehta:** So last year we did around 15% margin, right, in terms of EBITDA margin standalone business?

**Jagannathan Chakravarthi**: You are right.

**Dipesh Mehta:** Yeah. So from Q1 of 13.3, we expect in CC basis our margins should expand in next three quarter which helps us to reach closer to that number?

**Jagannathan Chakravarthi**: Correct. You are right.

**Dipesh Mehta:** So, what would be the margin lever which help us to see that margin expansion, if you can help us understand?

**Jagannathan Chakravarthi**: Yeah. This quarter, we had an impact of visa fees and next quarter we will have the impact of salary increase. Other than that, once these are behind us, we will see some improvement on organic basis.

**Dipesh Mehta:** Yeah. So in organic, what would be the lever, if you can help us understand because utilization we have already seen some improvement. So if you can help us understand what gives us confidence about expansion in organic business?

**Rostow Ravanan:** I would say by and large the main driver for improved profitability would be revenue growth and we are continuing to monitor costs very, very closely and some cost management will also help us improve profitability in this organic Mindtree business.

**Dipesh Mehta:** And can you give us some data about Bluefin and Magnet revenue terms and profitability? And how have we done in Q-o-Q?

**Rostow Ravanan**: The actual dollar revenue for Bluefin in Q1 was $7.3 million and the amount for Magnet was $6.5 million. Both businesses declined compared to the previous quarter. The Bluefin business declined by approximately 20%, 19.3% to be exact compared to the previous quarter and the Magnet business declined by 13% compared to the previous quarter.

**Dipesh Mehta:** And just one question about the Bluefin. You said it is $1 million revenue loss and $1 million cost overrun. So roughly 2 million overall impact on margin.

**Jagannathan Chakravarthi**: That's correct.

**Dipesh Mehta:** How you expect that project overrun and revenue weakness to impact performance going forward or it is one quarter phenomenon?

**Jagannathan Chakravarthi:** Yes. This is a one quarter phenomenon we are expecting, but there are various other factors and uncertainties around the business. Hence, we will watch that and then give an update during the course of this quarter.

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

**Sandeep Shah**: Just on the order book also, if you look at the trend of the new business order book, I'm not talking about the renewal. If we exclude the last Q3 FY'17, two large deals, do you believe that there is a deceleration in the new business TCV because even in this quarter seasonally it's a good quarter for the deal wins, but we have not done that great in terms of a new business, TCV?

**Rostow Ravanan**: No, at least we haven't currently seen anything that gives us a worry on that front. So typically new business from new customers tends to be between 4% to 5% of that year revenues. So, the largest portion of business growth comes from existing customers. So overall I think we are reasonably confident on the deal win momentum that we see, pipeline growth that we see, as well as like I said, specifically in terms of our sweet spot on digital, some of the deal wins that we have seen, all of which by and large gives us a little bit more of a positive picture.

**Sandeep Shah**: And can you just update about the two large deal wins of Q3 FY '17. What has happened to ramps ups because we were expecting in Q1, so what should be the ramp up schedule going forward now?

**Rostow Ravanan**: I would say one is progressing largely on plan, the other one is progressing I think about a quarter behind plan from the time we signed the contracts, mainly given some of the sort of sensitivities in the US environment at the moment. So one customer ramping up I would say between 60 to 90 days behind plan.

**Sandeep Shah**: The another one is already in the numbers of Q1, right?

**Rostow Ravanan**: Correct.

**Sandeep Shah**: Okay. So you believe that Q2 may have some ramp-up coming through this deal or this maybe like a Q3, Q4 kind of a ramp-up story?

**Rostow Ravanan:** So the first deal which is currently going behind plan should accelerate and give us a little bit more contribution in Q2. The second deal which is one that we announced in Q4 is continuing to ramp up and that will also give us some more growth in Q2. So both deals will show some acceleration in Q2 compared to Q1.

**Sandeep Shah**: Just another question on this acquisition related write-back of ₹ 37 crores. This is more like an acquisition related purchase liability. So why this is routed through P&L. Why there is no reduction related to this?

**Rostow Ravanan:** So the concept was that the acquisition had an earn-out related cost and part of that cost was employee-related cost. So this is contingent payment based on performance, given the fact that the integration of the Magnet business is progressing ahead of schedule at the moment, we have decided to scrap the old arrangement, the global sales force practice is combining into one single unit right now. So the earlier earn-out arrangements did not make sense in the new structure, so we cancelled the earn-out arrangement. When we did that, part of the reversal was like I said, relating to the employee costs, so that was prior to EBITDA, part of the reversal was payment to shareholders and was structured as the earn out. When that liability got reversed, the corresponding credit flowed through the P&L. So that is the combination of those two amounts.

**Moderator:** Thank you. We have the next question from the line of the Nitin Padmanabhan from Investec. Please go ahead.

**Nitin Padmanabhan**: On Bluefin, the $1 million incremental costs that we had this quarter, is it likely to be a tailwind going into the next or will it sort of prolong a little more?

**Rostow Ravanan:** We have made the best possible estimate and we have booked the cost at the moment. But like Jagan explained, there could be some factors, we are watching that closely. But as of today, we have made the best possible estimate and we have provided for the cost increase that we foresee on that project.

**Nitin Padmanabhan**: Sure. Second one that I wanted to ask was we had a fairly decent set of wins on the digital side this quarter, so when do you see this sort of ramping up, is it more likely to be Q3? What I am trying to arrive at is that, are we likely to see stronger second half versus the first is what I wanted to understand? How do you see the trajectory?

**Rostow Ravanan**: By and large, we expect the digital wins to ramp-up reasonably and evenly. So we don't anticipate a delayed ramp-up in any of those digital projects that we have won, so that number should more or less evenly give us revenue over the next two or three quarters.

**Moderator:** Thank you. We have the next question from the line of Ashish Chopra from Motilal Oswal Securities Limited. Please go ahead.

**Ashish Chopra**: Rostow, just wanted to understand the margins individually for both the acquisition. So while Bluefin we understand there has been some effort going on towards integration issues etc. but even for Magnet 360, I guess if we exclude this quarter, while the overall performance has not really been sluggish, but on the margins we have had multiple quarters where we have not made profits. So just wondering why would that be the case and what is really the margin trajectory on the Magnet 360 component?

**Rostow Ravanan**: Overall, I think it's the low, I would say slower than expected revenue ramp-up, that's the immediate headwind for us. There were some delays that like I explained earlier on in terms of deal closures. And that should sort of correct itself maybe in the next one or two quarters and that will also improve profitability. On our own, we are also re-evaluating all our cost and anything that needs to be done to optimize costs further, that's also a plan that we have put in place. So we are watching this fairly closely.

**Ashish Chopra:** So not withstanding the quarterly fluctuations, do you expect Magnet 360 to be a profitable entity for the remainder of the year?

**Rostow Ravanan:** Definitely.

**Ashish Chopra:** Okay. And just lastly, we saw the pick-up in digital revenues after five quarters of very range bound performance and quite a sharp uptick in this quarter which was quite healthy to note. But so just wanted to understand, so does this now form the floor of revenues going forward given the visibility and the deal wins or do you think that there could have been some one-off project components, given the nature of digital business, which may have gotten over this quarter and something that we should keep in mind?

**Rostow Ravanan**: That's a little bit difficult to predict. If you see, for example, part of the reason why Q4 was slow and some of the decisions got delayed in Q4, that's obviously come through in Q1 and therefore you will see some amount of volatility between quarters. Broadly as a trend, we see customers continuing to prioritize digital related investments, mainly because these investments help them grow their revenue, that's the main priority for most customers at this stage. So, I think broadly, we expect that trend to be positive for us. The only thing is, it is difficult to make a concrete prediction on a quarter-by-quarter basis.

**Moderator:** Thank you. We have the next question from the line of Vibhor Singhal from PhillipCapital. Please go ahead.

**Vibhor Singhal**: Sir just wanted to get an idea of what was the exact quantum of FX loss or net FX gain in this quarter?

**Jagannathan Chakravarthi**: This quarter, there was a FX gain of $295K and last quarter it was a loss of $3.4 million.

**Vibhor Singhal**: $3.4 million last quarter and this quarter sorry how much?

**Jagannathan Chakravarthi**: $295K gain.

**Vibhor Singhal**: $295K gain? And this has been accounted in the other income?

**Jagannathan Chakravarthi**: Correct. You are right.

**Vibhor Singhal:** Right. So if I look at the EBIT margins for this quarter vis-à-vis last quarter, so I believe, I mean when we last reported it last quarter, the EBIT margins did not include the FX impact, but this time we have basically as you mentioned that we have included any FX loss in the other expenses and FX gain in the other income. So this time the EBIT margins of 7.5% or the EBITDA margins of 11%, they do not have any FX loss component?

**Jagannathan Chakravarthi:** No.

**Vibhor Singhal:** In this quarter, right?

**Jagannathan Chakravarthi:** Yeah. They don't have.

**Vibhor Singhal:** Fair enough, sir. Just wanted to check on that.

**Jagannathan Chakravarthi:** But there is a gain this time. There is no Forex loss.

**Vibhor Singhal**: Right. So there is gain and that's included in the other income?

**Jagannathan Chakravarthi:** Correct.

**Vibhor Singhal:** Yeah. Great sir. Sir, my second question is on actually the Engineering business. So if I look at our Engineering business, I mean, after having hit the $20 million mark around six quarters back, we have been hovering around that same number, I mean $18, $19 and we've not been able to report any growth in that for almost 1.5 years now. So any specific client issues that we're facing there and what is ailing the kind of growth in that segment per se?

**Rostow Ravanan**: I mean it's one of the matters that the new technology media and services vertical head is addressing. I think like we announced Balaji Thirumalai runs the vertical right now, joined us a few weeks ago, fully assimilated into the business currently is based out of our office in Silicon Valley, continuing to focus on it. So we should probably have a more concrete answer by I would say early to middle of August.

**Vibhor Singhal:** Fair enough, sir. But as of now, would we be able to point to any indicators as to what might be doing that or you probably wait for that?

**Rostow Ravanan**: I think it seems like a few weeks from now, we will have a more clearer perspective. I'll get Balaji to give you a more detailed update at that time.

**Moderator:** Thank you. We have the next question from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

**Gaurav Rateria:** Just to understand, is there any change in the list of top five clients from the last quarter itself because the top two to top five clients have declined. And if not, then what's the reason for this decline, the stability in some of the clients has still not come.

**Rostow Ravanan:** Just give me one-minute Gaurav, we're just cross-verifying that number. So there are changes between the customers who are in the top five today compared to the customers who are in the top five at last quarter. One customer got dropped out and one customer has grown. So the point that we made earlier in this commentary was that new customers are coming in and replacing those customers in the earlier list, which are going through their own business challenges and therefore their spend with us is coming down as well.

**Gaurav Rateria**: Sure. But there were some client specific issues, which may not be possibly there in top 10 now or maybe below top 10. Are those issues still persisting or do you think those are completely behind us now?

**Rostow Ravanan**: Our impression is those customers which face challenges and therefore were either not growing or were declining, my impression is that probably reached steady state, but that is less of what shall I say priority for us. The higher priority is going behind those customers where we see greater growth opportunity, how do we put the best efforts of Mindtree to grow those accounts. So that's where our energy is going in at the moment.

**Gaurav Rateria:** Sure. Secondly, on the digital side, that strong growth in digital has coincided with a strong growth in the offshore revenues for you? Is there any trend where we are seeing the incremental revenues from digital or projects are coming to more offshore location than onsite?

**Rostow Ravanan:** So the broad trend we see is the initial engagement which tend to be small, say 250K-500K kind of initial engagements on digital tend to be more onsite centric, but those initial engagements when they become successful, the customer scales that up and makes it a much larger engagement, $5 million, $10 million, $20 million whatever size larger engagements. So when that moves to the large engagement model, typically that tends to have a much higher offshore component, but at any point of time there will be multiple clients in different buckets. Some customers, some projects are in the early stages and some other customers, other projects are in the advanced stages. So it's an ongoing effort.

**Gaurav Rateria**: At an overall level, would digital still have a very high component of onsite or/and at a profitability level, would the profitability be lower than the company average?

**Rostow Ravanan:** So I wouldn't like to comment on the margin aspect for the moment, but overall digital does tend to be higher onsite for two reasons. Firstly, the bulk of the work we do in our acquired entity is Magnet and Bluefin are predominantly digital type engagements and those businesses are almost 100% onsite oriented businesses at the moment because they are very high consulting-led kind of programs. Otherwise on digital, like I said, the initial engagements tend to be more onsite oriented and the larger engagements tend to have a higher offshore component. So overall digital does tend to have a higher onsite proportion compared to the rest of our business.

**Gaurav Rateria:** Sure. Last question from me on the Bluefin and Magnet, is there an initiative to change the revenue model also apart from the cost initiatives in the sense that from a project-based model to more platform-based model and recently you announced some Salesforce Center of Excellence within Magnet on one or two verticals including consumer goods also. So would that be a kind of a more platform-based offering and would the revenue model change any time soon for these entities?

**Rostow Ravanan**: That's one of the options we are evaluating, but I think that will be more a medium to long term kind of a view, currently based on customer conversations we don't see a change to the revenue model in the short to medium term.

**Moderator:** Thank you. We have the next question from the line of Nitin Jain from Credit Suisse. Please go ahead.

**Nitin Jain:** Sir, just one question on the margins. Sir, there were several positive levers in the organic business during the quarter, so the growth was decent, offshore mix was better and digital business also grew significantly. So ideally the organic margin should have been much better for the quarter even after accounting for the visa cost and currency headwind. So what extent is declines in this, 270 basis point decline in the organic business?

**Jagannathan Chakravarthi**: Nitin, actually there has been some benefits, operational improvements have happened. However, because of the size of the impact of visa fees, the margins had got impacted plus the currency was also not in favor for us.

**Nitin Jain**: Yes, that was 240 basis points. So I am saying there should be some offsetting benefit from all of these levers that I mentioned, so we didn't see that benefit. So was there any other headwind which we are missing?

**Jagannathan Chakravarthi**: No major headwinds other than this. The net impact of 30 basis point what has left out is actually net impact, so there have been some benefits and there has been some impact on operational cost increases, which gave a net impact of 30 basis points.

**Moderator:** Thank you. We have the next question from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

**Rishi Jhunjhunwala:** Just a quick clarification. So our standalone margins in the previous quarter were 14.1%, this quarter it is 13.4%. So there is only a 70 basis point sequential decline in standalone financials, EBITDA margins, which also might imply that for the rest of the 230 bps decline in overall consolidated margins is attributed to the subsidiaries. However, we talked about 150 bps from visa and 80 bps from currency, which I am assuming should be going in standalone, so just wanted to understand what is the disconnect here?

**Jagannathan Chakravarthi**: Rishi, actually last year the standalone margin last quarter was 16% and that has come down to 13.3% now. There is a decline of 2.7% on standalone basis. So on consolidated, the margin was 14.2% last quarter and current quarter it is 11.1%.

**Rishi Jhunjhunwala:** Okay. Somehow looking at your financials, the standalone financial suggest otherwise, I don't know whether there has been some restatement or something like that?

**Jagannathan Chakravarthi:** Not on the profit level, it will not be there, only the internal components, there have been some restatement has happened.

**Rishi Jhunjhunwala:** Okay because PBT for your previous quarter in standalone is 1,429 and this quarter is 1,882 and even if you remove the impact of FX and the 374 million thing, it will still not be a 300 basis point decline, it will be largely flat PBT.

**Jagannathan Chakravarthi:** No, I think the number what you're saying maybe different. Probably, we will take that offline to take you through the number, because the number is very clear from our side.

**Rostow Ravanan:** So the PBT last quarter, there was a loss in Forex gain or loss, there was a loss, but this quarter there is a gain. So obviously at a PBT level, you cannot compare margins, but you should look at EBITDA. On EBITDA, there is change.

**Rishi Jhunjhunwala:** Yeah. Actually I calculated EBITDA only, which was ₹1,700 million last quarter and this quarter it's ₹1,606 million.

**Rostow Ravanan:** Because we have changed the presentation in the financials a bit in terms of the way the other income and the Forex gain or loss is presented, you will have to do a little bit of a plus-minus to arrive at the EBITDA, because for example in the last quarter, the Forex loss okay, what's shown as Forex loss separately if you look at the last quarter's financials, but however in this quarter, the Forex loss is part of other expenses. It is re-classified as other expenses for the last quarter. So if you remove that plus-minus, you will come to the same EBITDA, which we declared last quarter and that will come to 16%.

**Rishi Jhunjhunwala:** Okay, understood. And secondly, in terms of your outlook for the year from a revenue growth perspective, so you mentioned it now looks more likely to be high-single digits. I am assuming that is something that you're seeing on consolidated basis, but does on an organic standalone basis the outlook remains intact of double-digit, low double-digit?

**Jagannathan Chakravarthi:** It is, at present yes. It is positive low double-digit at standalone level here.

**Rishi Jhunjhunwala:** Okay. And just lastly, I mean in the past, most of the times we have seen that when the quarterly outlook is to change materially from what you had reported, you used to come out with a profit warning. This time around, clearly there is a significant deterioration in profitability. Just wondering whether we have considered doing that and not went ahead with that?

**Jagannathan Chakravarthi:** Rishi, actually whenever there is any major surprise element on the margin front, we have given an early warning on profitability. This time, we have indicated that there will be an impact of visa fees and currency is one thing, which none of us can expect how it will behaveAnd the other impact was on acquired entities, that Bluefin overrun on project was also could not be estimated earlier.

**Moderator:** Thank you. We have the next question from the line of Romil Jain from JM Financial. Please go ahead.

**Romil Jain**: Sir, just one question on the digital side, considering we have a good pipeline and good wins on the digital side, what kind of investments we foresee when we ramp-up our digital segment?

**Rostow Ravanan**: At this point of time, I think by and large most of the necessary investments are already in place. However, it is also little bit of an ongoing view, for example as technology markets change, etc. if we need to spend anything incremental, we will probably address it at that stage. But at this point of time, I would say it's more like a business as usual. These are factored in, anticipated and I would say the relevant investments for these are reasonably under control already.

**Romil Jain**: Okay. And sir, I just missed one number, if you could just, digital as a percentage of total sales on a total level.

**Rostow Ravanan:** 42% is approximately.

**Romil Jain:** Sorry, how much sir?

**Rostow Ravanan:** Romil, digital as a percentage of total revenue is approximately 42.3%.

**Romil Jain**: 42.3.

**Romil Jain:** Yeah. And sir, this is last question relating to digital. For us, are we seeing the size of these contracts increasing going forward two, three years down the line and currently what would be the size of these contracts, the $108 million wins that we have?

**Rostow Ravanan**: We don't break up the individual deal size, but on a qualitative basis, yes, we are continuing to see size of digital opportunities going up. For example, the medium size of the opportunity in the pipeline and opportunity we are closing is probably more than 2x what it was last quarter same time. So digital is becoming a little bit more mature and therefore size of deals are going up.

**Romil Jain:** Okay. And we expect that to continue going forward?

**Rostow Ravanan:** Yeah. That's our current impression.

**Moderator:** Thank you. We have the next question from the line of Shashi Bhusan from IDFC Securities. Please go ahead.

**Shashi Bhusan**: Sir, on a sustainable basis at current currency level, what should be our steady state margin we are aspiring for and based on growth outlook, digital composition, onsite-offshore mix, say two years and are there some initiatives that we are working on that you would like to highlight?

**Rostow Ravanan**: So let me take the question and Jagan can add as well. From our point of view, Shashi I think there is a conscious realization that our current margins are below our comfort level. So we do have multiple programs in place to help increase that. Some of them are operational, some of them are sort of changing the way our clients are dealing with us etc. So, there is like I said multiple efforts that are being made to help improve profitability. It's a major area of focus and that is continuously working on. Don't want to at this stage put out a number in mind saying that, that's our future margin aspiration. However, this is a major priority for us.

**Shashi Bhusan:** Sure sir. If I look at our performance, our margin used to be very volatile, say somewhere in 2008, 2009, 2010 and then we came to very stable kind of performance from 2013, 2014 onward, but of late like the last four, five or six quarters, is it like business environment which is changing, is it the contract nature, which is changing, which is creating this kind of volatility and the predictability of the margin little difficult?

**Rostow Ravanan**: I would say it is a little bit of both. There are obviously external factors in terms of customer priorities getting changed and so on and so forth there, as well as the macroeconomic kind of uncertainties. So a little bit of it is those kind of external factors. However, we are also conscious that some of these are also internal factors, which we need to work on and we need to improve. And that's so like I said priority focus for us at the moment.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraints that was our last question. I now hand the conference over to Mr. Sushanth Pai for closing comments. Thank you and over to you, sir.

**Sushanth Pai**: Thanks, Aman. Thank you all for joining us. If there are any questions unanswered, please do write to me or Sunil and we will get them answered through e-mail or calls. We look forward to talking and rather being in touch in the coming days. Thank you once again.

**Moderator**: Thank you very much. Ladies and gentlemen on behalf of Mindtree Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.