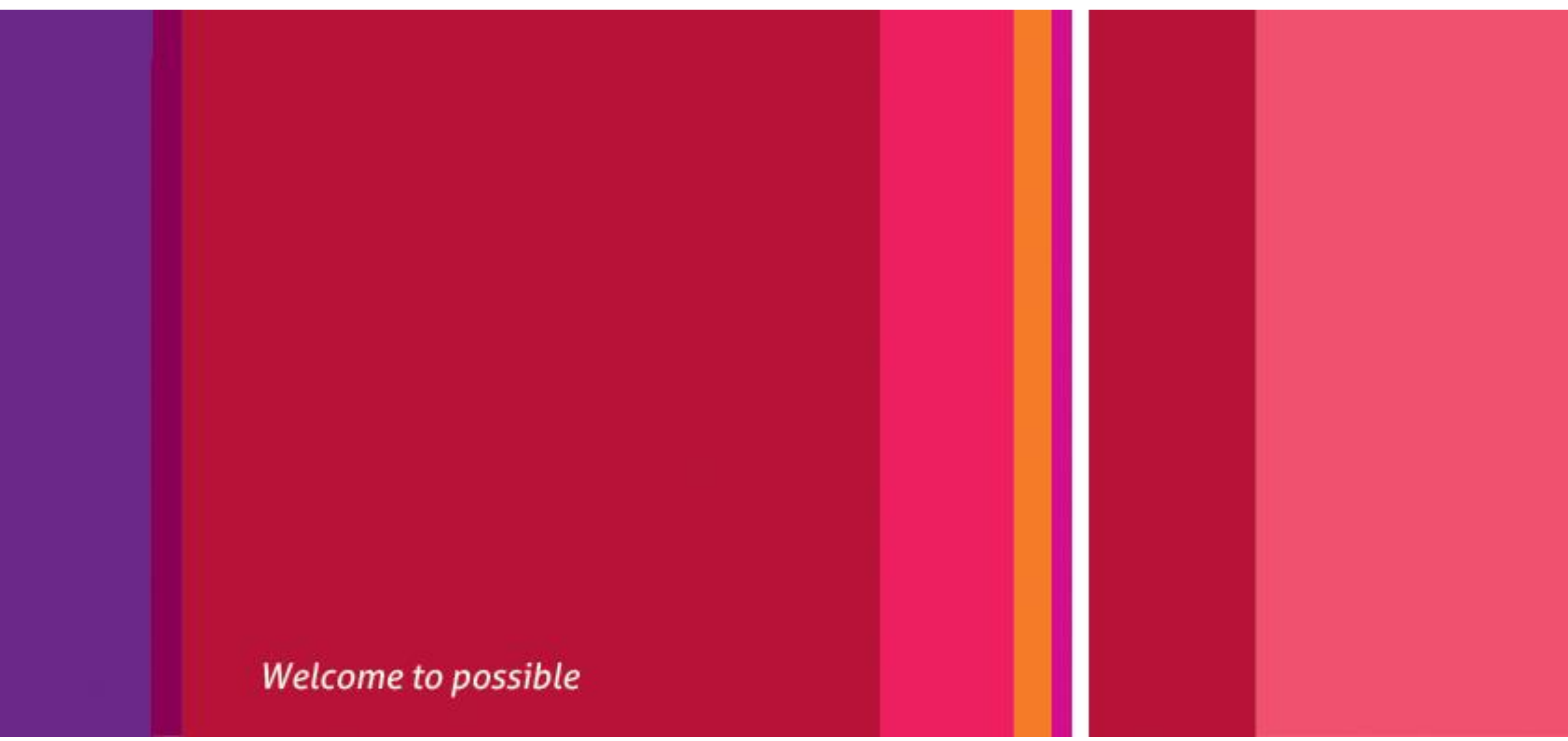
Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Second quarter ended September 30, 2014 (Q2 FY2015)

October 22, 2014



Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mindtree Limited Q2 FY15 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sushanth Pai. Thank you. And over to you, sir.

Sushanth Pai: Thanks, Shyma. Welcome you all to the Conference Call to discuss the Financial Results for Mindtree for the Second Quarter ended September 30th, 2014. I am Sushanth from Investor Relations team in Bengaluru.

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

N. Krishnakumar – CEO & Managing Director;
Parthasarathy N.S. – Executive Director and COO;
Rostow Ravanan – Executive Director and CFO; and
Paul Gottsegen – Chief Marketing and Strategy Officer.

The agenda for the session is as follows:

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

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

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

I now pass it on to Krishnakumar.

Krishnakumar Natarajan: Thanks, Sushanth. We are happy to share that we had another solid quarter of growth and margin performance. Our strategy of becoming a leader in Digital Solutions is continuing to bear fruit and has contributed to another strong quarter for Mindtree. Q2 revenues came in at $147.05 million, which is a growth of 4.1% quarter-on-quarter and 18.6% year-on-year. On a constant currency basis, quarter-on-quarter growth was 4.4%.

Other highlights of our Q2 results are as follows:

- We have seen all round growth across all our verticals, with Travel and Hospitality leading with a growth of 8.6% quarter-on-quarter and 30.5% year-on-year.
- Our strength in Digital Services continues to provide growth traction and leadership. Digital and SMAC has grown 8.7% quarter-on-quarter.
- We are seeing good improvement in our client metrics. We have 200 active customers. Our $30 million clients grew by 1 to 4; our $20 million clients grew by 1 to 7; and our $5 million clients grew by 1 to 27.
- We also won number of multi-year multi-million dollar deal wins with leading global clients during the quarter.
    - A world leader in computer software and technology chose Mindtree to provide Data Analytics Services.
    - A leading global insurance company, Mindtree will provide Managed Services to support Underwriting Applications for this existing client.
    - A leading global automotive company, Mindtree will provide Digital Support Services for this existing client.
- On the attrition front, LTM attrition has increased to 15.7% from 14.2% last quarter. Seasonally, attrition goes up after the compensation revision cycle and hence is not a source of concern for us. However, we continue to improve our employee engagement with a number of initiatives and will focus on bringing down this LTM number.
- We have 13,018 Mindtree Minds reflecting a gross addition of 810 Mindtree Minds in this quarter.

Now, for some points on outlook for Q3:

- We have signed orders for $165 million in Q2, of which renewals were $102 million and new orders were $63 million. This is the second consecutive quarter of good order intake.
- In Q3, slower ramp-ups combined with normal seasonality indicates that our growth will be marginal in Q3. However, with seasonality being out of the way in Q4, we will return to a higher growth number quarter-on-quarter.
- Consequently, we maintain that we will be higher than the NASSCOM growth estimates of 13-15% for FY15 and Mindtree's growth for FY15 will be higher than what we achieved in FY14.

I would also like to take this opportunity to wish all of you on the call "A Happy Diwali and a Good Holiday Season."

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

Rostow Ravanan: Thank you, KK. Good Evening to all our friends in the financial community on this call. Some additional financial highlights for this quarter:

- The revenue growth in this quarter came through volume increase of 4.1% and a small increase in realized rates of 0.1%.
- EBITDA margins for the quarter were flattish compared to Q1. The salary increases impact in this quarter were offset by the absence of visa costs which we incurred in the previous quarter and some improvement in utilization as well.
- Forex gain for this quarter was $1.7 million, mainly due to debtors' translation, because the rupee depreciated on 30th September to 61.75 compared to 60.18 at 30th June.
- Effective tax rate for this quarter is 22%.
- PAT for this quarter is at 15.5% which is a 4.9% increase over the previous quarter and a 9.7% increase year-over-year.
- DSO at the quarter end is 72 days.
- Utilization including trainees has gone up to 73.5% compared to 72.1% in the previous quarter.
- As of 30th September, we have hedges of $35 million at an average rate of 61.77; all hedges are on a rolling three month basis and will expire in Q3.
- At the meeting today, the Board has approved an interim dividend of Rs.3 per share for the quarter ended 30th September 2014.

Outlook on margins for Q3

- The last batch of people which is approximately 15% of our total work force will get their salary increase in this quarter, which will create an impact of about 1% on EBITDA. Overall, we expect EBITDA to be flat in Q3 on a constant currency basis.
- The margin outlook I explained just now does not factor in currency fluctuation. At our current operational revenue mix, a 1% change in the rupee/dollar rate creates about 35-40 basis points impact to margin.

With that we would like to now turn this over for questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. The first question is from Srivatsan Ramachandran from Spark Capital. Please go ahead.

S Ramachandran: KK, just wanted to get your comments on couple of things. One is we have been seeing onsite increasing dramatically in the last six quarters in a row, onsite mix has been substantially increasing. So just wanted to understand what is driving this in terms of any service lines or in terms of any vertical that will be very helpful? And if you have to take more six or even eight quarter view, do you think the Onsite mix can go more and more heavier versus with where the targeted growth segments you are targeting?

Krishnakumar Natarajan: It is a good question. There are two trends; Srivatsan, which is driving again, just to give you a context, if you take a year-over-year even the offshore billable headcount has increased, but you are right, that the Onsite increase in percentage wise is higher, but clearly, if you look at it, I think in the early stage where people were experimenting with what sort of proof-of-concept to do in the Digital space, clearly, front-end work was done Onsite. Also, early in the engagement a number of enterprise customers are experimenting with delivery models like Agile which are also onsite-centric because release cycles are much shorter and people would like to see that getting delivered quicker. It is only in the past, maybe a few months we started seeing the proof-of-concepts getting into larger engagements and to that extent the early part of the work needs to be done onsite and consequently you see that onsite growth in terms of effort is still sort of increasing. What we do believe is a good part of the Digital work would tend to be in the early stages of the work onsite centric, but once it moves to a scale the normal leverage in terms of Offshore would start coming, which again is reflected, if you look at our 4 quarters of increase, you would see that the Offshore billable headcount 4 quarters back did not increase as much as Onsite, but increasingly the Offshore increase is also catching up with what the Onsite increase is**.** It is primarily driven by the nature of services which we deliver and also adoption of agile methods of service delivery by a certain set of clients.

S Ramachandran: So if you were to take more again a multi-quarter or even a couple of years view, given most of the growth within our mix is favoring Agile or being Digital kind of thing, do you think that onsite can actually directionally head higher than where we are?

Krishnakumar Natarajan: It will be dependent on the nature of services and the maturity within that service itself within the client. So I am just taking a client who is starting to think in terms of Digital initiatives and they are experimenting, yes, the quantum of Onsite-centric work will be higher, but the volume may not be that large, but clearly people have gone through the stage of experimentation and moved to really rolling out initiatives, clearly, it will move to a normal mix of Onsite/Offshore, which will be probably 14% to 15% of Onsite effort and the rest will be Offshore, but to reach that stage, I would think it is specific to each client and could vary anywhere from maybe 3 quarters to maybe even 5 quarters to reach a steady-state.

S Ramachandran: Attrition rates have been trending up on a quarterly, annualized basis now for quite some time. Just wanted to understand the mix of attrition; is it more at what levels and is a part of it due to higher involuntary attrition? And what are the various steps being taken and what would be the comfort levels on that front?

Krishnakumar Natarajan: Like I shared with you, clearly, I think this quarter has both the mix of some involuntary, because we complete the performance management cycle and people below certain performance, we sort of ask them to look for other opportunities, but this is also seasonal, typically, we have observed, once the compensation revision cycle is announced, because increasingly, we are getting more differentiated in terms of how we run the compensation cycle. So you tend to see that bit of thing increasing after the revision cycle has been implemented**.** What we do believe is clearly, I think, we continue to keep a lot of engagements, independent surveys are indicating that clearly the engagement levels are improving, and we would think that in the subsequent quarters, the attrition, may not be the LTM, but at least the quarterly annualized will start to trend downwards**.** What we would certainly aim for is at least a few percentage points reduction both on the quarterly annualized as well as the LTM, though the LTM will start showing results only in a subsequent quarter, because already some of the numbers in the previous quarters are high.

Moderator: We will take the next question from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: This question was with regards to our client metrics. Over the last 2-2.5 years you scaled down a long tail of accounts that you had. Could you talk about where are we in that journey? That is question number one. The second question was with regards to, if you could share your outlook on margins more in the medium-term given the changing mix of business that we are seeing?

Krishnakumar Natarajan: Manik, let me answer the question on client, and Rostow will give the margin outlook, we think we are sort of aiming at**.** Clearly, I think the rate in terms of how we have been trying to control our customers, in the last few quarters you would have seen, had sort of been far more controlled, from 336 about 8 quarters back, last quarter we had 206 active customers, which is down to about 200. So there is only a small part of the tail which is left. So to that extent we do not anticipate the active clients will come down much more in the subsequent quarters. In a way I think our results are also demonstrating that we did share in the beginning of the year that while for the first 18 months we really focused on our top 10 clients, this year as a planned strategy, we are increasing investments and focusing on our top 30 clients, and clearly, we are happy with the growth which our top 30 clients have been able to provide to us and that will continue to be a focus as far as clients are concerned, which necessarily means that we continue to actively improve our average revenue per account. Even on new logos go selectively after a few clients whom we want to win, because that is where I think we can make an impact as well as within a reasonable time period bring them up to a reasonable scale, which is of interest to us. So that thrust will still continue. I do not see that there is going to be another big cutting off the tail. I think by and large the majority of what we had to do on the client profile improvement we have already done, which in turn is reflecting that the client metrics are starting to look better quarter-after-quarter, like in this quarter we have had an increase in our $30 million customers, $20 million customers, as well as our $5 million customers**.** Let me know pass on to Rostow or Sushanth to talk about the margin profile.

Sushanth Pai: Manik, Sushanth here. Early in the year we had indicated that for this year our margins will be stable on a constant currency basis. So I think we are trending towards that. Both first quarter and second quarter we did have some pluses and minuses, like for example this quarter we had salary increase impact of about 1.4%, but we were able to offset that mainly because of operational improvement, you have seen the utilization going up this quarter. So I think that trend, we see to continue for the balance of this year. On a medium-term perspective there are some things that we are working on; some of the investments that we have made in the past one year or so, if that pans out well, the target is to have higher growth, for example, in the case of Europe, that can bring up a little bit of SG&A benefits of scale. The second thing is we are also adding campus people as we go along and if we are able to utilize them as per plan that can also be as a margin lever for us. So I think on a medium-term perspective, we may have some scope to improve margins, but I think till end of this year we are maintaining that our margins will be stable.

Manik Taneja: This was regarding our hiring; if you could talk about the number of fresher's that we have added through the last couple of quarters and what are the plans in terms of more fresher hiring in the next half of the year?

Sushanth Pai: In the first two quarters we have added totally about 250 people from campus so far, and our plan right now is to add about 350 in Q3, and about 400 in Q4.

Manik Taneja: Should one assume that the utilization rate moderates from here on?

Krishnakumar Natarajan: Yes, in the short-term Manik, you will find the moderation, because clearly you would have seen that our average experience has also gone up in the last two quarters, and with the numbers which Sushanth said about 350 in Q3 and 400 in Q4, there will be a time lag in terms of them getting into a billable role. So the utilization at an overall level including trainees will tend to moderate.

Manik Taneja: If you could talk about some of the other margin levers that you plan to use or optimize over the medium term to maintain margins? And secondly, is there any range of utilization that you guys have in mind where you would want likely to operate at?

Sushanth Pai: In the medium-term, like I explained, the main levers would be the pyramid, the way we can utilize the campus people quicker, and some benefits of SG&A as we grow, so these are some of the levers that we have at present on a medium-term basis.

Krishnakumar Natarajan: And on the utilization question, ideally, I think we are also in a stage where we would like to keep capacity for growth options. So, what we will be comfortable is probably at a peak of 73% to 74%, but with the addition of the campus recruits, both in Q3 and Q4, we may go to the early-70s, and like Sushanth said, if we are able to drive and the business mix to keep deploying these campus recruits quickly, we will move up to the 73% to 74% level.

Moderator: Our next question is from the line of Sagar Rastogi from Ambit Capital, please go ahead.

Sagar Rastogi: Regarding Digital, I just wanted to get a sense of whether the projects you are winning are primarily from existing clients or are you able to use your Digital capabilities to break into newer clients?

Krishnakumar Natarajan: That is a good question. Clearly, in segments like Retail and Consumer products, we have had new logos which we have won through our expertise in Digital, and in a way people come to us for the expertise in Digital, and once we engage with them and deliver a credible sort of solutions, they stay with us because they see us as being a flexible and an expert in that area, so the culture part of it helps us sort of retain those clients, but certainly the growth is also driven by existing customers who have gone through the phase of experimentation to the first few key initiatives which they are rolling out.

Sagar Rastogi: You mentioned that for new clients, what they like about you is being flexible and having expertise in that area. Just if it is possible, could you give some more color on how you showcase that expertise? Is it the completed projects that you have? I am sure that would be one of them, but any other metric that you track in terms of say number of personnel that you have hired who are experts in this area or maybe certifications from certain platform providers that you have? Any more color on that would be more useful.

Krishnakumar Natarajan: The Digital space has not got into still that mode of tools which are becoming standard where certification become a key reality, but of course we have amongst the tools, which are popular, we certainly have deep expertise which are able to demonstrate through projects which we have executed and good clients references, so that tends be a thing. So there is no number in terms of saying, okay, we have 50 people certified in hybris or 100 people in IBM WebSphere Commerce on so on. I think it will reach a stage where today it is an evolving market, where a number of tools are getting used. Clearly, the big part is referencable customers who have seen the value of solutions which we have delivered that is a very key thing. The third element is clearly in an evolving field like this, how do you bring in your expertise and collaboratively work with customers to really create a unique solution which is valuable in the context of their business. So we have created infrastructures like what we call the “Digital Pumpkin”, which are physical as well as expertise and tools infrastructure which help us co-create unique solutions for the customers. So that would be the third part of the differentiation where clients see us being different. And also there are specific expertise which you bring in, in what you could call "Core Processes in Specific Domain". So, if you take a domain like Retail, CPG, omni-channel or trade promotion, an important core process which is getting transformed in the context of leveraging digital technologies, or it could be delivery transformations which are happening where customers increasingly want digital solutions to be delivered using Agile methods of delivery, or leveraging the expertise we have on Cloud, or beyond the infrastructure how do we leverage assets like MWatch which Mindtree has, which give a unique differentiating proposal to the customer.

Moderator: Our next question is from the line of Sandeep Shah from CIMB, please go ahead.

Sandeep Shah: Just in terms of margins, if we look at in this quarter, I think we had a tailwind coming through rupee of closer to around 40 bps. We had absence of visa cost of closer to around 170 bps. We also had an increase in terms of the utilization rates. And also we commented last quarter that in constant currency we would keep the margin flat while the rupee has depreciated. Is it like the margins have actually declined by 20 bps or what is causing this; is it the wage inflation being higher than what we anticipated or what we planned earlier?

Sushanth Pai: Sandeep Sushanth here. One point to clarify is though the rupee has depreciated and that would have caused 0.4% impact, we also had a cross currency impact on revenues for 0.3%. So in effect our margins from a currency perspective, the impact was only about 0.2%. So there has been a very flattish sort of trend even from a constant currency perspective. So it is not like major sort of a decline as such, it is quite flattish, because the currency itself has not impacted so much, but the other things that we had like we had explained was mainly the salary increases, that was as per plan, we had indicated 6% to 10% and that is as per what we had planned. The other thing that sort of caused a bit of a margin impact was the way the onsite shifted from quarter-to-quarter in terms of revenue.

Sandeep Shah: In the coming quarter we expect another 100 bps kind of wage inflation for the 15% of the workforce?

Krishnakumar Natarajan: That is right, yes.

Sandeep Shah: Just a bookkeeping question. As there is wage inflation in this quarter, if I look at the IFRS, the number for the employee cost for the SG&A employee has gone down by 5% to 6%. So what is the cause to this?

Krishnakumar Natarajan: It is not just a billable people number, but it is certainly a marketing and sales expenses, which there were some cost which incurred in Q1, which did not completely come in Q2.

Sandeep Shah: Because I was talking about the wage cost, which was Rs.85 crores last quarter, this quarter is close to Rs.80 crores – the SG&A line?

Sushanth Pai: We will look at it and we will come back to you.

Sandeep Shah: Any comment in terms of the billing rate outlook going forward? If I am not taken wrong, I think what we are expecting is the Q3 there would be a marginal growth and Q4 we expect the growth to again inch up in line with maybe Q2?

Krishnakumar Natarajan: I am not sure whether we would like to indicate that it will be in line with Q2, but certainly we will get back to a growth or a stronger growth mode in Q4. Q3 is largely impacted by the seasonality, which obviously happens at the end of the calendar year, particularly, technology companies tend to start putting projects on hold because they have run out of budgets as well as the leave and related issues which come up in Q3. So, to that extent certainly we would anticipate Q4 to be a growth quarter.

Sandeep Shah: Just the comment on billing rate outlook?

Krishnakumar Natarajan: What we see is certainly the billing rate outlook is fairly stable. Clearly, both on, what you could call 'run the business' type of thing, where clearly efficiency is becoming a key thing, we have seen rates to be fairly stable, and even in discretionary spend, we have seen the billing rates to be, by and large stable. So we would anticipate the billing rates to be within a range but largely flat.

Sandeep Shah: The top client has declined in this quarter; even the top 6 to 10 clients has declined in this quarter. Is it the project completion or…?

Rostow Ravanan: The Top client has actually grown in this quarter.

Sushanth Pai: All have grown, Sandeep; top 10 has grown 3.7%, top 5 by 4%+ and top client has actually has grown by 9%.

Moderator: Our next question is from the line of Ankit Pande from Quant Capital, please go ahead.

Ankit Pande: My question was more on the Hi-Tech side. I think we do not like to separate it out anymore. But just from the commentary in the previous quarters, we did highlight that we are selling more Infrastructure services to them and we may plan in future to sell Analytics-related services to them. So how is the progress there, may I just ask this?

Krishnakumar Natarajan: Certainly, in Hi-Tech the progress in terms of providing Enterprise Services has started to work well. In fact, part of the growth of 4%+ this quarter was driven by some of those starting to get into the revenue stream. Looking ahead for half year too, we anticipate that trend to continue. So, overall, we would think that compared to a de-growth we had in Hi-Tech in FY14, clearly, we are looking positive to be on a good growth curve as far as Hi-Tech is concerned. And Q3 will certainly be seasonal as far as Hi-Tech is concerned; it will be very muted in Q3.

Ankit Pande: Just a one numerical point. I think the fresher hiring has been consistent from our side. May I know the number, Sushanth, for FY14 in total?

Sushanth Pai: We do not have that information readily available, but I will get back to you offline on that.

Ankit Pande: But has our plan here changed as such over the last couple of quarters as to how we are going to plan the hiring? I notice that Q4 also is a pretty strong number that we gave out our intention to hire. So, is that something that has sort of materialized over the last couple of quarters as to how aggressive you want to be in this area?

Rostow Ravanan: No, I do not think there is any major change in the approach or velocity, it is just the methodology of recruitment has changed. We are doing a combination of a few identified campuses and we go recruit on-campus and a larger number of people coming through the off-campus recruitment, just to make operationally more efficient for us, but other than that, broadly, on the same path of trying to increase the number of campus graduates we take on to help manage the pyramid.

Moderator: We have the next question from the line of Mohit Jain from Anand Rathi. Please go ahead.

Mohit Jain: Two questions; both on Hi-Tech. We have not exhibited the kind of seasonality you are talking about this time in 3Q. So if you look at sequential growth over the last two-three years, we have done reasonably okay in 3Q despite the furloughs or the slowdown that is anticipated. So, is it due to higher proportion of Hi-Tech this time or is there something else that you are anticipating in terms of your Top 10 clients? And second is big jump in other income this quarter. So is there any one-off which has happened in this quarter?

Krishnakumar Natarajan: Let me respond to the Q3 and Sushanth will be answering. I think beyond just the working days, I think the holiday patterns are fairly unique this time. Again, if you take a key festival like Diwali, I think particularly the southern states, it is between Wednesday and Thursday, and to that extent we have sort of taken a view that some percentage of the people will take a long holiday. So, the circumstances in terms of how the holidays have panned out this Q3, there is certain uniqueness in that, which we think is going to play out in terms of reducing capacity a fair bit, which also is the reason why we certainly believe Q3 will be a very marginal growth. Hi-Tech particularly, certainly going to be impacted by it, because typically as we get half way into the quarter is when we get a clearer view in terms of what the furloughs are and normally at least the technology companies implement their golden week in the last month, which is December. So there is certain assessment in terms of how it has been last year, and with respect to the current clients, we have been interacting with them, to make a judgment in terms of who of these customers has a likelihood of furloughs kicking in. So all of that have been factored in when we really say that, yes, there is going to be seasonality as well as some slow ramp up which is going to impact Q3 revenues, and consequently, the growth is going to be very marginal.

Mohit Jain: Just a follow-up, are you seeing any slowdown in US by any chance this year versus last year?

Krishnakumar Natarajan: No, US, we are certainly seeing still strong, both pipeline as well as decisions which are getting made as well as what the outlook is.

Mohit Jain: This is a third consecutive quarter of strong growth in Enterprise Solutions. So should we expect this trend to continue or does it continue to be project-dependent and we may see volatility in the coming quarters?

Krishnakumar Natarajan: Again, as we look ahead in each of our segments, the funnel still being healthy. Retail and Consumer products, there is good funnel. Hi-Tech, clearly there is a good opportunity sort of building up. Travel and Hospitality like we have seen, clearly has been leading the growth as well as in BFSI, particularly the Insurance side, we see funnel being fairly healthy. What would impact would be one or two key clients, where towards the end of the year, there are certain constraints they have on their budgets. So the ramp up is going to be slower in Q3, which will impact Q3, but clearly, as the new budgets flush in from the beginning of the calendar year '15, I think we will get back to a normal growth mode in Q4.

Sushanth Pai: On the other income, the way it works is some of our investments are in the portfolio called FMP. And the way it works is, as and when the FMP matures, we account for the income. So it depends on the date of the maturity. So in this quarter there have been many maturities of the FMPs and therefore the income has been recorded accordingly. So therefore we have had a bump up in other income.

Mohit Jain: Any guidance on the tax rate?

Sushanth Pai: The tax rate is going to be very similar like the way we guided; it is about 22% now and that will continue for the rest of the year.

Moderator: We have the next question from the line of Rishi Jhunjhunwala from Goldman Sachs, please go ahead.

Rishi Jhunjhunwala: Just at the risk of being repetitive, I just wanted to get some sense on the supply side dynamic from a medium-term perspective. So, if you look at our utilization has been inching higher, attrition has been high, and hiring also has not been as strong. And if you look at the overall industry, we have seen a similar trend wherein utilization has been rising dramatically as well as attrition. If over the next three-four quarters, are we expecting slightly higher supply side pressures? And how do we see you preparing for it because most of the industry as I mentioned is facing higher utilization and higher attrition at the same time?

Krishnakumar Natarajan: There are two elements of it; one the supply side pressure will certainly come in terms of newer areas where there is continued investments which customers are making. Overall, I do not think there is going to be supply side pressure, yes, it could also get confined to a specific group of people, particularly in the experience range of two to five years, which is where I think the pressures will probably be there on the supply side. On the other hand I think clearly each one of us including Mindtree, we are putting in lot of efforts in terms of how do we change the model of delivery, in fact a good part of our investments, this is what we call the "Next Generation Delivery Platform", which is driving a lot of intelligence, automation, plus ensuring that productivity improvement happens. So even the notion of depending on a certain percentage of people capacity enhancement to give revenue improvement itself, that equation will change. Attrition, as far as this quarter is concerned, clearly, I would think part of it is clearly both seasonality as well as completion of the performance management process. Seasonality happens particularly when the compensation revision cycle gets over and there is a percentage of people who would move after that because they have been waiting for the increase to come in and consequently they use that as a lever to sort of move on to their next job, but clearly we do believe that this seasonality will disappear in Q3 as well as we have been participating in external surveys as well as internal survey and all of that indicates that clearly the people engagement in Mindtree is getting to become larger and larger and consequently we would see that attrition will trend down.

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

Karan Taurani: My question was pertaining to the European region basically. One of your larger peers reported strong growth and your performance has been weak this quarter. So any specific reason for that?

Krishnakumar Natarajan: I think it is primarily the stage at which we are in. I think we started making serious investments in Europe over the last two quarters and typically these investments tend to take four to six quarters to start getting into what I would call 'Industry Comparable Growth Rates.' So we do think that it is purely a time lag effort of investment when they will start getting into industry comparable growth rates.

Karan Taurani: When do you start to see growth coming from Europe?

Krishnakumar Natarajan: Clearly, our focus is on UK and Continental Europe and within Continental Europe mostly the German speaking parts which is Germany and Austria as well as Netherlands, those are the only key markets where right now our investments are focused on. So, a large part of our growth will come in these markets.

Karan Taurani: Next question is pertaining to margins. Basically, you are saying that your offshore efforts and your offshore mix would improve going forward. Do you not think that will also be a strong lever for margin improvement next year as well?

Krishnakumar Natarajan: There will be continued investments in the business, including both investments in physical infrastructure as well as go-to-market investments will be there. So to that extent, our aim is to really try and keep margins at a constant level.

Karan Taurani: What is the company range or the comfort level you would have for utilization rate excluding trainees?

Krishnakumar Natarajan: We shared this earlier; excluding trainees when we sort of start hitting 74-75% we would start increasing capacity. Because I think we are really in a growth business and since our scale is not as large as any of the larger players, and many times we compete against them, we need to have the capacity to make quick starts to orders which might come by. So, we would sort of be comfortable at a peak level of 74-75% at which time we will start increasing capacity.

Moderator: Thank you. The next question is from the line of Yogesh Aggarwal from HSBC. Please go ahead.

Yogesh Aggarwal: KK, I just wanted a bit more color on the Digital deals you mentioned earlier. You said that Onsite portion has been going up because of the Digital deals. Going forward over the next two years, will there be increasing offshore component in these deals because we always thought that these are smaller in size and duration? Do you think there is some annuity component there as well because of which Offshore can increase going forward or this is the status quo we should expect going forward in terms of Onsite-Offshore mix?

Krishnakumar Natarajan: As these projects mature, we will clearly think there will be an offshore component of it. Clearly, projects which get delivered using Agile delivery mechanisms where the Onsite component would be higher, once they have been rolled out clearly, the support and continuous enhancement gets moved to a typical Onsite-Offshore model. So, it is client-specific and in a way it is comparable or you can map it to the maturity in the whole digital transformation space the client is. And clearly, as they become more mature there will be more offshoring which is possible.

Yogesh Aggarwal: But in the meantime for onshore deals, the pricing should be better than a traditional deal, will that be a good assumption?

Krishnakumar Natarajan: There are two elements – if it is a first stage when the client is experimenting, pricing maybe at the current level. Once the concept and ideas understood and they are rolling out the first initiatives, the Onsite pricing will be marginally higher.

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

Sandeep Shah: Just the last follow-up question is in terms of this quarter, we have said that out of $165 million, there is $63 million worth of new business. So can you share a similar ratio for the first quarter of $165 million TCV?

Sushanth Pai: Sandeep, we have just started collating the data from this quarter onwards. So we do not have the information for the prior quarters. So we will observe these trends as we move forward.

Moderator: Thank you. The next question is from the line of Vishal Desai from Axis Capital. Please go ahead.

Vishal Desai: Just wanted to know taking the TCV question further, would you be able to give some color in terms of the $165 million TCV, how much would be coming from digital technologies or just a break up in terms of probably where have they been won?

Sushanth Pai: Vishal, we do not go into details of such information, because the combination of various things and also it is a combination of a multi-year multi-million dollar. So we have not gone to that level of detail and we are not disclosing that.

Moderator: Thank you. The next question is from the line of Hardik Shah from KR Choksey. Please go ahead.

Hardik Shah: Just one bookkeeping question; in the next quarter you mentioned despite the wage hike our margin will be stable on constant currency basis terms, is it right, sir?

Rostow Ravanan: That is correct.

Hardik Shah: What are the levers which will come into play in the coming quarter?

Sushanth Pai: We will have certain revenue growth and plus salary increments are for a lesser number of people. So that is one. The pyramid will also broaden because of the campus being added.

Hardik Shah: Just basically want to confirm 100 basis points impact of margin will be mitigated by the employees pyramid, is it right, sir…?

Sushanth Pai: In Q3, like I said, it is a combination of things that will happen.

Moderator: Thank you. The next question is from the line of Ankit Pande from Quant Capital. Please go ahead.

Ankit Pande: Just one more question on our top customer. There has been a news that there have been some layoff and that is percolating a little bit through some parts of the tech sector, there have been some more M&As. Would you like to highlight any sort of aberrations that you might expect or anything that we may need to watch out from these, which seem to be short timeframe? So would you like to highlight anything on that front?

Krishnakumar Natarajan: Essentially, the part of business we are engaged with the top customer is in areas which are very strategic to them for the future. To that extent, we do not anticipate any threats in that business, in fact, one of the large deals which we won during this quarter was through the top client for a key initiative which they are rolling out which will be for a multi-year engagement.

Ankit Pande: Would you see the Infrastructure number bouncing back up again? I think the Q-o-Q growth moderated just a bit this quarter. Do you think that is just a one-off or do you think continued momentum can pick up back there?

Krishnakumar Natarajan: Clearly, the current moderated growth in Infrastructure is primarily because there is a client who based on their considerations have sort of ramped down and is a bit slow. We would anticipate that Q4 it will get back to a higher growth.

Ankit Pande: Sushanth, just one clerical number on this one; could you just give me the hedge number again? I just missed that.

Sushanth Pai: About $35 million of hedges at an average rate of 61.8.

Moderator: Thank you. As there are no further questions from the participants I now hand the floor back to Mr. Sushanth Pai for closing comments. Thank you. And over to you, sir.

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

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