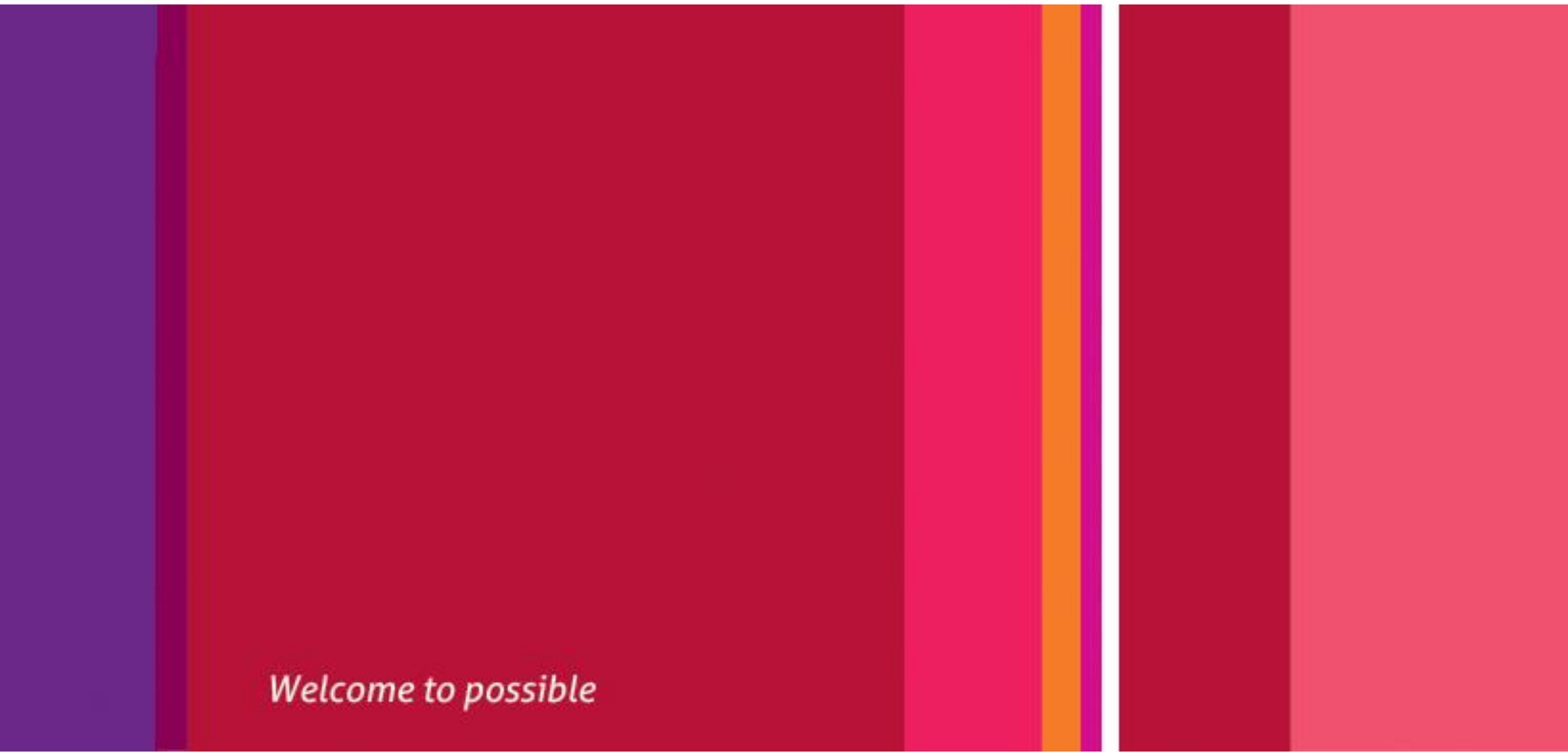
Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Second Quarter ended September 30, 2015 (Q2 FY2016)

October 15, 2015



Moderator: Ladies and Gentlemen, Good Day and Welcome to Mindtree Limited Conference Call to Discuss the Second Quarter Results. 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 '*' 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 the Conference Call to Discuss the Financial Results for Mindtree for the Second Quarter ended September 30th, 2015. I am Sushanth from the Investor Relations team in Bangalore.

On this call we have with us senior management team —

N Krishnakumar CEO and Managing Director;

Parthasarathy NS — Executive Director and COO;

Rostow Ravanan — Executive Director and Head, Enterprise Service Line;

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 Performance after which we will open the floor for the Q&A Session. Since we have introduced an audio webcast some of you may 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 the analysts and investors. In case there are anyone from 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 the statement periodically. I now pass it on to Krishnakumar.

Krishnakumar Natarajan: Thanks, Sushanth. I am happy to share that we had a stellar quarter on all fronts. Consolidated revenues came in at $180.3 million, a growth of 16.4% quarter-on-quarter and 22.6% year-on-year. Both the acquisitions — Bluefin and Relational Solutions were consolidated and 3-months of financials have been added. Even if we exclude the acquisition, our revenues grew by a robust 8.1% quarter-on-quarter in dollar terms which we believe is industry-leading growth. This makes it the second consecutive quarter in which Mindtree has delivered industry-leading growth. This quarter has also shown the best incremental revenues in the last 6-years even after excluding acquisitions.

Other highlights of our quarterly results are as follows:

We had excellent all round performance across all our verticals — BFSI grew by 8.9%; Retail, CPG grew by 8.6%; Travel and Hospitality grew by 3.9%; Technology, Media and Services showed a growth of 11.5%. The entire revenues of Bluefin has been added to others category.

Amongst Service Lines, Development grew by 10.7%, Maintenance grew by 14.8%, IMTS grew by 11.5%, Package Implementation grew by 114.2% mainly due to Bluefin. Without Bluefin Package Implementation grew by 7.9%.

Amongst Geographies, US showed a good growth of 9.1%. Europe also showed a good growth of 41.1% and Bluefin revenues are a part of Europe geo. Even if we exclude Bluefin, Europe grew by a good 10.1% which is creditable since we have had softness in Europe revenues over the last two quarters.

Our Digital business continues to outperform and deliver 23% quarter-on-quarter growth. Excluding acquisitions Digital grew by 9.6% quarter-on-quarter. We have 296 active customers which include 54 customers from Bluefin and 24 customers from RSI Solutions.

New clients addition during the quarter are 18. We showed progress on the attrition front and LTM attrition has reduced to 17.1% as compared to 18.4% last quarter. Quarterly annualized is at 16.6% as compared to 18.7% last quarter. We have 15,582 Mindtree Minds reflecting a strong gross additions of 1801 Mindtree Minds in the quarter.

We have also had some strong multi-year multi-billion dollar wins in the quarter as follows:

A world leader in computer software and technology: For this existing client Mindtree will provide Operational and Analytic services for their Cloud platform. Global interactive entertainment software company: For this existing client Mindtree will provide Sales Analytic Solutions. Global Communications Company: For these existing clients Mindtree has been selected as the preferred partner for providing Development, Analytics and Testing Services for its Customer Experience Management product. These wins are in addition to the two wins we announced recently during the quarter.

Now some points on outlook for Q3 and the rest of the year:

We have signed orders worth $193 million in Q2, out of which renewals are $130 million and new orders were 63 million. Out of these orders are less than 1-year is $157 million and the balance $36 million is for greater than 1-year. In this $193 million we had Digital contracts for $105 million. We continue to have strong contract closures; however, Q3 is a seasonal quarter due to leaves and furloughs. So we expect Q3 revenues to be slightly better than the growth we achieved in Q3 of last year. This does not take into account any currency fluctuation. Overall for FY-'16 we are very confident that we will beat NASSCOM estimates of 12% to 14% even excluding the recent acquisition.

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

Jagannathan C Narasimhan: Thank you, KK. In Q2 our fee revenue grew by 16.5%, volume increased by 10% and price realization increased by 6.5%. Excluding acquisition, fee revenue grew by 8.2%, volume increased by 8.5% and rate realization decreased by 0.3%. EBITDA margin excluding acquisitions are at 19.1% as compared to 17.6% in Q1. We had a net currency benefit of 1% due to 2.5% rupee depreciation. Average dollar-rupee rate was 64.9 in Q2 compared to 63.4 in Q1. And operational improvement of 0.5% after taking into account salary increase impact of 1.8% on EBITDA. Including acquisition EBITDA margins are at 18.5% due to lower margin profile of Bluefin. Forex gain in Q2 is about $1 million as compared to gain of $3.2 million in Q1. The translation gains were higher in Q1 due to significant cross currency movement in Q1. The effective tax rate is 22.5% as compared to 22.4% in Q1 of financial year '16. On an organic basis, ETR has increased to 23.3% due to normalization of foreign taxes based on actual return filed in this quarter for certain geos. PAT for the quarter is at 13.5% as compared to 14.1% last quarter mainly due to lower Forex gain. PAT increased by 11.7% quarter-on-quarter. EPS is 18.82 which reflects quarter-on-quarter increase of 14.4%. On a consolidated basis, Our DSO is at 77 days as compared to 69 days last quarter. On a standalone basis our DSO is 73 days. Our utilization including trainees is 71.4% as compared to 70.3% in Q1. Utilization excluding trainees is 73.3% as compared to 71.9% last quarter. As on 30th September we have a hedge of $49 million at the average rate of 66.12. These hedges are on a rolling 3-month basis and expire in Q3. This includes hedges of Euro-INR of 4.5 million at 73.48 and GBP-INR hedges of 2.25 million at 102.63. Capex spend for the quarter is $5.9 million, YTD Capex is $11.4 million. Cash position is at $76 million. Cash position reduced during the quarter is due to acquisition payouts. EBITDA-to-operating cash flow conversion was 55% and EBITDA-to-free cash flow was 39%. Return on capital employed increased to 37.4% as compared to 34.4% in Q1.

The Board of Directors at a meeting held on October 15, 2015 recommended interim dividend of 40% that is Rs. 4 per share for the quarter ended September 30, 2015.

Some points on margin outlook of Q3:

We will have salary increment for 28% of our people in Q3 which will have an impact of 0.8% on our EBITDA. We will also have 340 campus additions. Given this and also it is a seasonal quarter we expect margins to be slightly lower than Q2. This does not factor impact of currency fluctuation.

With this I conclude my update, I hand it over back for the questions.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from Sandeep Agarwal of Edelweiss. Please go ahead.

Sandeep Agarwal: Sir, I have a couple of questions: First, if you see, we are saying that $157 million of contracts won in this quarter will be executed over next 12-months. So that is almost 88% of our current quarter revenue, which implies that even

20% growth next year should not be a very difficult factor for us given this quarter order win and even in previous quarter the order win was very strong. And I understand from the breakup which you gave that Digital is a large part of that revenue. So I have two questions here; one on the Digital side. The way our Digital orders are coming in, will we come very close to like 50%, 60% in next few quarters? Secondly, does my inference on 87% order already booked and we still have three or four quarters, so even 15%, 20% growth should not be a problem. I know you do not give guidance, but I am just asking whether is this the right way to look at it?

Krishnakumar Natarajan: No, I think I just like to reiterate your point, we do not give a guidance, so actually cannot comment on that, but I think if you look at what we said is that it gets executed over 12-months but you cannot assume that all of it is going to get executed in one quarter because the portfolio of those businesses will also have a different execution cycle but certainly we can give you more view into how are these contracts emerging. You rightly asked a question on Digital. Out of this $193 million, we did share that $105 million is contracts which we have signed in Digital which compares with what we did in Q1 we had $60 million of contracts which is signed in Digital. So that is one data point. The second data point is if you look at average contract value in Digital last quarter it was at $220,000 average contract value. That number has gone up to $448,000 during this quarter. The key thing is if you look at the Digital contracts the execution cycles are much quicker. So in a way it is difficult to extrapolate it as what will be the revenue impact next year because the cycles itself of these contracts are much shorter in terms of how you execute them.

Sandeep Agarwal: But sir, my first point was more to say like, even if you do quarterly annualized number, I understand this will be executed over next 12-months, but a rough estimate of quarterly annualized gives us somewhere 87% to 95% kind of order win already for the next year similar number. So obviously, I think the asking rate for growing at 15%, 20% becomes very easy to achieve. That was what my whole point was.

Rostow Ravanan: We continue to aspire for high growth.

Sandeep Agarwal: What is our Digital proportion right now in this quarter?

Krishnakumar Natarajan: It was 35% but again one of the comments which we made was if you look at an organic basis the Digital grew 9.6% which is slightly ahead of our organic growth of 8.1%, now it is about 36.6% of our overall revenue on a consolidated basis.

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

Sandeep Muthangi: I had a question on the Digital thing. The way we are disclosing it is about 35% of the revenue. It is one monolithic service line that you are disclosing. I would appreciate if you could give me some color on the kind of services that are growing and the kind of trends that are seeing? I guess what I am trying to get it is, whether it is kind of medium term migration to AWS, Azure kind of work or whether it is discretionary app development kind of work, any color on that could be very helpful?

Krishnakumar Natarajan: So Sandeep I will just give something of how we assume the contract values sort of moving and the size of the contract after I will add on in terms of the type of services which we are seeing in that. Clearly, the way in which we see typically customer go through what we think is a three phase cycle — one is clearly an experimentation stage where a key thing they expect from a partner is to collaborate with them and build various sort of proof-of-concept. Then it is the testing of a proof-of-concept where the size of these becomes larger. The third stage is where they really go into a roll out stage where the order values get closer to what could be then the traditional services. In a way our portfolio contain Digital includes customers of various stages of maturity even within the three phase cycle and clearly we are seeing the average value of order increase as customers move from Stage-1 to Stage-2 to Stage-3. Just to give you a data points, in Q1, the average value of Digital contracts was about $220,000 that has become $448,000 in this quarter and we anticipate this upward trend to continue. Now, in terms of specific services many times in the early stages it is just proof-of-concept which need not do anything with respect to migration. Obviously, migration to the Cloud is a very key service. May be Partha you want to add in terms of types of services which….

Parthasarathy NS: Sandeep, I think one important trend that we are seeing is that Digital is no longer a discretionary spend. That is #1. #2 is actually the type of contracts that we are getting it is a combination of many things but primarily it is focused on from revenue enhancing kind of capability that our customers want. So I think to that extent it is more on kind of thing that move into Cloud, Analytics which gives us decision-making ability to customers. That is the place where we are seeing the maximum amount of contract signing.

Sandeep Muthangi: My second question is on the testing service line. It has been quite a while since we have seen strong consistent growth in this, almost two years. I just want to get your thoughts on what is happening over there. Is it just because there is a lot of automation going on and you are benefiting but revenues are not showing or is there something to worry about in the service line?

Krishnakumar Natarajan: Sandeep, I just want to clarify when we call out testing, it is an independent testing. One trend which you clearly see is you are absolutely right, there is a lot more focus on automation and performance testing. So the manual testing part of the business is clearly coming down. So there is a lot of move towards performance automation testing which are primarily tool-based. So the value of the services certainly would come down. What we have also done is we have built our own framework and intellectual property particularly on Open Source performance testing tools. In fact our Selenium Automation Framework is now deployed probably across 100 plus customers where the value of the platform is small and the services revenue also comes down. The third aspect which we think is more what is in a sense leading to smaller growth in the independent testing business is as we see more and more customers moving on to the Cloud, the segregation between development and operations is merging. So customers want more a DevOps type of operation which means in terms of our own segregation that revenue is probably getting reflected in the development not under independent testing because we are not only doing the development, we are also taking over the operations where continuous building and test is also a part of the development revenue tree. So I think these are the three factors which are leading to independent testing being slow in terms of growth.

Sandeep Muthangi: I just wanted to appreciate the metric that you have been giving for the past two quarters, which is on the TCV and giving further insight into it. I think it is a great metric and I hope more companies give it like that.

Krishnakumar Natarajan: Sandeep**,** We want to be absolutely leading the way on this. While we did talk about saying that the Digital today we think we are very confident that size is not a constraint and we compete as well as win against the larger players. Even on transparency and sharing business metrics we want to lead the way.

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

Manik Taneja: Just wanted to first of all get some sense in terms of how does the acquisition consolidation impact our client metrics, if you could break out the impact in terms of the revenue growth of top 5, top 10 clients, ex of acquisition component. The second question was if you could give us some sense in terms of how are some of the big acquisition moves helping you drive revenue or cross sell opportunities in Europe?

Krishnakumar Natarajan: Let me answer on the top-10 and consolidation and Rostow will give a sense because the largest acquisition is really something which he is personally driving for integration. Clearly, if you look at our top-10 clients either in the early part of the year we did share that we have softness on two clients, of which one will recover back in terms of spending which is in the Retail, Consumer Products space and that change we have already seen, you would have seen that our Retail, CPG after one quarter softness has come back into strong spending. On the other clients, clearly, we did say that it is not in a segment which is strategic to us and the clients will start decelerating and that has clearly happened and in Q3 and Q4 where that specific client which is a Europe-based client the deceleration will continue. But we do not see any threat in terms of consolidation amongst our top-10 clients, in fact, beyond this one client we see our top-10 clients, year-on-year our top-9 clients have grown 20.5% which I think is a substantive type of growth and we see more opportunities within these clients. Also, client acquisitions have been very strong, in fact, partly the growth driver for this quarter has been so strong because we did close fairly good deals in the last quarter and the early ramp up in this quarter has really contributed to our growth driver and we see the funnel also being strong for the balance of the year. So we do not see any threat for these 9 clients amongst our top 10-clients because of consolidation and any softness in revenue.

Rostow Ravanan: To the second part of your question, Manik, the entire top-10 customers are reported in our fact sheet and it is Mindtree customers, none of the customers on acquired entity and currently made it to a top-10 at a consolidated level given the revenue sizes are still quite small compared to the overall Mindtree organization. The reason why you see a fall in percentage of the top-10, some 48 something to 45 something is mainly because the acquired entities have gone into the denominator, the customer and the entire revenue of the acquired entities gone to the denominator and obviously the Mindtree top-10 like KK mentioned has overall grown at a healthy rate. On the acquisition, we are making progress on all synergy front, including taking Mindtree services to their customers as well as their services to Mindtree customers, we expect to close the first joint win within the next few days, one customer is in a very advanced stage of contract negotiation, etc., So overall I think the momentum is picking up and yielding a very-very productive conversations in front of customers on top-5 at the moment.

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

Shrivatsan Ramachandran: Just wanted to touch up on the Digital piece. It was a very detailed explanation you gave. In terms of client onboarding, are we able to penetrate into new clients with the Digital as an arrowhead or is it still too early to talk of new logo client addition on the Digital area?

Krishnakumar Natarajan: No, clearly, Digital is a very key entry point for us in the new clients. When we talked about new orders for $63 million for this quarter it is both new business from existing clients because as we expand the services lines into existing clients Digital is an important element of gaining entry into clients where we do not have a presence as well as getting into entirely new clients with just the Digital offering. We have also created an organization which is going to support entering new customers through Digital. In fact, when we said they are investing in Digital, part of the investment is for a dedicated sales force which is only taking our Digital services to new clients. So that has started generating entries for us into new clients with Digital.

Shrivatsan Ramachandran: Just continuing to get some sense, when you start talking of Digital deals coming of decent size, maybe the Phase-III analogy you are giving us, how should we see margins on those — do you think those margin should be in line with company or even better company margins given you will have substantive pricing powers in those deals. I am saying mainly on the Phase-III, I know Phase-I, Phase-II will be sub-optimal from a profitability point of view, but would deals in the Phase-III be meaningfully profitable either in line with company or even higher than company average?

Krishnakumar Natarajan: To a large extent to be honest I think we only have a few clients are just getting into Phase-III. So at this time it is early days to make a conjecture in terms of how the margins would actually pan out but at this point in time we do believe that it is not going to be margin dilutive, but again I think you need to have a reasonable size of projects which are executing to give a thing. I would certainly think in about one or two quarters we would have an answer on this for you.

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

Madhu Babu: Sir, now onsite effort has increased to almost 20%. So do we see further movement upward from here and when do we see it stabilizing?

Krishnakumar Natarajan: Again, 20% is on a consolidated basis because the acquisition which we did Bluefin is a 100% onsite business, so partly that will continue because like we explained last time we are now entirely addressing the value chain of Digital, these are only in the front end of consumer experience improvement and digitizing productivity. With the Bluefin acquisition we are also able to address the backend which people are changing to be more Digital-friendly and that is 100% an onsite business, so you see the increase in onsite efforts because of that.

Madhu Babu: Last year we did 2% constant currency growth for Q3. So this time as you said it would be better than last year. So can we say 2.5% kind of constant currency growth?

Krishnakumar Natarajan: We are clearly talking about a reported basis, not on constant currency.

Madhu Babu: Last year then Q3 was flat, I think 0.5% growth. So you are saying that similar kind of growth will be there this year?

Krishnakumar Natarajan: We will do better than that.

Madhu Babu: On the offshore realization, that is continuing at around 10%. So how do you see pricing in your Traditional Services? Can you talk about Automation initiatives from your side?

Krishnakumar Natarajan: If you really see realization tends to be very dependent on number of working days and to a large extent clearly you would have seen our fixed price percentage also going up, but we see the pricing environment as being stable, we are not seeing any pressures in terms of pricing. Like I shared last quarter we had a large deal which was won from a new customer and the services are primarily Traditional Services. We got into a good ramp up stage which helped us significantly drive growth during this quarter, but there is a significant amount of Automation involved because the services delivered are Infra and Applications and both our Infrastructure Automation platform which is MWatch as well as our next-generation delivery platform is certainly helping us improve both our productivity and margin profile even in this contract. But again it is still early days because we are getting to a ramp up and stability stage, but at this point in time we do believe automation is helping us maintain margins even in a commoditized services delivery.

Moderator: Thank you. The next question is from the line of Rahul Jain from Systematix Shares. Please go ahead.

Rahul Jain: You did a fantastic number on the organic front and also there has been a good contribution from the inorganic front and we have been seeing this as a trend where most of the companies are acquiring small niche expertise kind of a company, maybe to add a capability and most of the companies are also seeing overall growth moderation to certain extent. Do you think inorganic would be a very crucial factor going forward and what would be our strategy on this front going forward?

Krishnakumar Natarajan: We have always maintained Rahul that our inorganic option is really driven by a strategy and to that extent we are looking at where is it that by acquiring we will be able to accelerate our capability in a specific area as well as can we acquire new customers which will then be able to mine better. So you will find that majority of our investments inorganic will be to strengthen as well as improve our leadership in the digital space. So if you have seen both the acquisitions which we have done is really focused on that, the Bluefin to really improve our backend digital enabling capability as well as RSI to really improve our trade promotion analytics which is again a digital offering. So looking ahead we will do inorganic acquisition which strongly aligns in our strategy to become leaders in this space.

Rahul Jain: So that I understand from a capability addition point of view, but do you think this is more also relevant from the point that unless this kind of investment are made, we may not be able to grow on a sustainable basis on the run rate which we have been doing in past?

Krishnakumar Natarajan: No, that does not mean that. Yes, there are areas where we are investing to build our capabilities in an organic way. So to that extent which is also the reason why we said that we look at our margins we do think that between FY-'15 and FY-'16 our margins will be little dilutive because of the investments we do both in Digital and Platform. So we will continue to build in an organic manner. Where we see opportunities, where we can acquire which aligns with our strategy and more than anything else, it is very closely matches our culture and values, we will do that.

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

Sandeep Shah: First thing, I think we have been commenting that the full year growth excluding the recent two acquisitions would be higher than 12% to 14% NASSCOM range. If I just exclude the Discoverture which was been consolidated from 4Q of FY15, my sense is, the growth excluding Discoverture would be closer to around low double-digit, which would be like a deceleration of mid-teen kind of a growth we have done in the last couple of years. So that is where the Rahul's question, so just an extrapolation on that. So, in overall term you believe that organically because of what is happening on traditional IT business, cannibalization and some amount of competitive pressure, the growth on the organic basis may likely to remain in the range of low double-digit going forward?

Krishnakumar Natarajan: If you take in a way we would think organic includes Discoverture also because it was a part of last year, but there again if you really look at, Sandeep, currency has played a very major role. So one way of really doing an apple-to-apple comparison is to look at what is the dollar to Euro, dollar to Australian dollar or Singapore dollar as on the 30th December 2013 and then compare it. Because, frankly the currency has played a big role in the last calendar year. We have had significant depreciation in terms of the currency. So in a way I think the way to look at it is organic includes Discoverture. On a financial year basis if you look at what we delivered even including the consolidation of Discoverture last year to this year we do feel, yes, we will be better than the NASSCOM guidance of 12% to 14%.

Sandeep Shah: So we are saying, even excluding Discoverture we would be better than that?

Rostow Ravanan: Yes.

Sandeep Shah: In terms of pricing, how is the experience for the deals on the traditional side which are coming for renewal, any abnormality been seen there because of the automation demand or whatever?

Krishnakumar Natarajan: There is price compression on the commoditized type of deal both in new orders as well as renewals. But what we do believe is if you pick the right orders and are confident through automation you can manage the margin profile. So we are fairly selective in terms of how we do them, like clearly, there are opportunities coming in the Infrastructure Management space which are price competitive but has high asset purchase which means that you have to buy the assets and then do the Infrastructure business. We are consciously staying away from that type of business. But where Infrastructure is primarily service-driven, we think we have the capability through our tools and automation to manage price-competitive opportunity.

Sandeep Shah: More than 50% of your revenues comes from Retail, CPG, Manufacturing, Technology, Media. So how is the experience in terms of expected furloughs — do you believe on a Y-o-Y basis, it is likely to remain normal or there could be some abnormality there.

Krishnakumar Natarajan: No, Q3, there will be impact of furloughs because typically it impacts only the Technology, Media and Services business because technology companies clearly start managing their budgets sometime from mid-November and traditionally it has been that run-the-business type of technology services has never been impacted by furloughs. But clearly, for the first time in some of our Enterprise customers who use services to keep running their business, they have also started planning for some level of furloughs. So, it is a reality that in Q3 we are going to get impacted by furloughs, by additional leaves and lower number of working days.

Sandeep Shah: KK, my question is, is the furlough in this year is likely to be higher than the furloughs of last year?

Krishnakumar Natarajan: We do see it is going to be marginally higher than last year.

Sandeep Shah: Can we just repeat in terms of what is the margin walk on Q-on-Q basis both organically and inorganically?

Jagannathan C Narasimhan: Organically and inorganically we have an impact of salary increase happening in this quarter for about 28% of people, this will have an impact of about 0.8% on our EBITDA and also the seasonal factors and furloughs are having an impact on revenue growth. We are expecting a slightly lesser margin than Q2.

Krishnakumar Natarajan: If you want to see this quarter we had headwinds of compensation increase and we had tailwinds of currency appreciation. Taking both of these into account, our organic margin improved by 150 basis points during Q2.

Sandeep Shah: So, what was the wage impact in Q2?

Krishnakumar Natarajan: Q2 clearly we had the currency giving us the tailwind of 100 basis points and operational improvement of about 50 basis points but the salary increase had an impact of 1.8%, 180 basis points.

Sandeep Shah: So it looks like for the full year the wage inflation will have almost like 260 basis points kind of impact where our offshore as a percentage to the revenue was almost now similar or slightly higher than the industry. So is it that the wage inflation this year we are giving is higher than the peers of the industry?

Krishnakumar Natarajan: In July, yes, you are right, our wage increase has been higher than the market. It is a very conscious thing, our average offshore increase was 9% and the onsite was pretty much in line with others or marginally higher 3%.

Moderator: Thank you. The next question is from the line of Mohit Jain of Anand Rathi. Please go ahead.

Mohit Jain: Few questions; one is on the volatility between Q2 and Q3 growth rates. You talked about furloughs, but then I also notice your T&M revenue is coming off, which means that you should have less impact of furloughs compared to last year and then the absolute difference between 8% and 0.5% to 1% looks quite sharp. So any specific thing that you would like to highlight here?

Krishnakumar Natarajan: No, just to clarify on furloughs, it does not impact only T&M because yes, we do change to Managed Services, but customers want us to stop billing and it is practically the worst, because you cannot release the team, you stop billing for that period and then you have to resume the services on 1st of Jan when their budget comes back. So, whether it is T&M or whether it is Managed Services, furloughs do impact our services because you convert T&M into what you call Managed Services where you bill for a fixed monthly. The other impact which will have is we did share at the beginning of the year that there are two clients on which we see softness in services, one which will come back and the other clients will continue to decline during the course of the year. That decline is going to accelerate during Q3 and Q4. It is a European client. So both those will impact our growth rates during Q3.

Mohit Jain: So what kind of impact these clients are having on your top line?

Krishnakumar Natarajan: No, like we said we may not be able to share exact numbers, but in spite of both those headwinds, we do believe our Q3 growth will be better than what we delivered last year FY15 and overall for FY16 we are confident that we will beat the NASSCOM guidance of 12% to 14% excluding the acquisitions.

Mohit Jain: Excluding Discoverture also, right, this time because last time your guidance was including…

Krishnakumar Natarajan: Discoverture is a part of what we did last year, so when you take a base on FY15 it includes whatever revenue we accumulated in Discoverture.

Mohit Jain: So, '15 reported number versus '16 including Discoverture is what you are talking?

Krishnakumar Natarajan: That is right.

Mohit Jain: On the receivable days, it has gone up sharply in this particular quarter. So anything to read there?

Jagannathan C Narasimhan: Our DSO on a consolidated basis has gone up to 77 days because DSO profile for Bluefin was slightly longer, we are working on training them in tune with Mindtree standards and Mindtree DSO has gone up from 69 days to 73 days this quarter.

Mohit Jain: That is the usual cycle that we should look at or is there a one-off in this particular case?

Krishnakumar Natarajan: I said we will get it down.

Mohit Jain: Will remain at 69, 70, is it?

Krishnakumar Natarajan: Our goal is to get into 70.

Mohit Jain: So we were quite impressed with this 8% growth, but what I am trying to understand is, is there any short duration project which is included here, which may not come in 3Q?

Krishnakumar Natarajan: If you look at last quarter, we have closed some large deals. A lot of them kicked off during this. So there is certainly an initial ramp up revenue which has come in during this quarter. Clearly, our top-10 accounts, if you include this one client who has been decelerating the rest of the 9-clients grew 20.67% year-on-year. So that also contributed to a strong growth during this quarter.

Moderator: Thank you. The next question is from Shivam Gupta from CWC Advisors. Please go ahead.

Shivam Gupta: I had a question regarding the two deals you announced on your prepared remarks, serving Analytics into those clients. So could you give us a bit more color on the kind of job that you will be doing there and once these revenues roll in which are the service lines where they will get recorded?

Krishnakumar Natarajan: Clearly, we talked about a world leader in computer software and technology. This is both operational and analytics for their Cloud platform, this will be a part of our Digital revenues. On the global interactive entertainment software company, here again, I think we have provided high-end sales analytic solutions which will also be a part of our Digital. The global communications company for whom we are providing Development, Testing and Analytical Services will be a part of our Technology, Media and Services group but as a service line it will come under development.

Shivam Gupta: But if you look at specifically your Digital it is another cut on your revenue pie, right, you obviously cut it by your service offerings, then by your verticals and you have a separate cut on Digital and SMAC. But when you record it in any of those buckets, if you look at only through service offerings, then where will this fall, if not in Digital, SMAC? Digital, SMAC is just a derivative of where you are recording these revenues, right?

Krishnakumar Natarajan: It will be in the development bucket.

Shivam Gupta: You will be developing some new app or some new program for these guys, right?

Krishnakumar Natarajan: That is right.

Shivam Gupta: In terms of Analytics, when you say you are deploying the solution, is it an Analytic solution that you have made that you will be deploying or what exactly, some more color on that?

Krishnakumar Natarajan: When I talk about Operational and Analytic service of the Cloud platform, clearly, the customer likes to understand what is the usage of their consumer of their services which we are offering through the Cloud platform. So it includes Analytics on user profile, how much they are using, what is the state at which they sort a drop off a service and so on, all of which, which feeds back into their products feature and enhancements sort of opportunity which they will get. And also to try and see what are the opportunities to cross-sell some of their other services.

Rostow Ravanan: One more dimension to the point just KK made, it also analyzes geographic profile of the visitors which should allow this client to scale up/scale down, Infrastructure, etc., in different markets and also the penetration of some of these newer offering in markets where they enter.

Shivam Gupta: Who is your competitor for this? If you could name two products which you compete with?

Krishnakumar Natarajan: Again, actually it will be difficult to call out a competitor, all I can tell you is this is a client where there are multiple vendors, I would think about 4 or 5 vendors for delivering services, all of them are amongst the top 6 vendors in the space, and in a way I think we won the business competing against three of those larger players.

Rostow Ravanan: It is including both global and domestic players.

Shivam Gupta: You mentioned to an earlier question that Digital is also helping you break into a new logos, right?

Krishnakumar Natarajan: Yes.

Shivam Gupta: I just want to understand how these new logo deals in Digital are coming across, because one school could be that they may be coming, you doing the discovery with the client which means that consulting growth should be a leading indicator of Digital growth, but it does not seem through. And the other way is that maybe these deals are coming through some kind of an RFP and you are wining them based on your capabilities. So which of the two would be the right or closer explanation of this?

Krishnakumar Natarajan: Again just to clarify whatever we do in a pre-discovery stage of clients, we do put it under consulting. Consulting is primarily where we are talking to clients in terms of how they could restructure their portfolio or how they could change an infrastructure to get more benefits or it could be relating to package application, early part of consulting which we do. So that is the reason why we do not see it under consulting. But clearly the entry opportunity to Digital comes because we are able to take an experience which we have had with one client and what business impact it has had to another client or in many instances it is co-creation with the customers. The problem statement is known, we really collaborate with the client and co-create multiple proof-of-concept which they then experiment with, which is how the initial entry phase the value is small. One out of the co-creation proof-of-concepts which we have done, the client chooses one specific aspect, then the order value for executing that increases. And once the proof-of-concept is proven within a controlled environment they get into a much more larger role out which is where the deal sizes increase substantively.

Shivam Gupta: Lastly, on that same point. So when you are entering the discovery phase or the first POC phase on this Digital, is it that the stickiness with client or commitment in any kind of contractual is there that they will continue with Mindtree till the very end of the roll out or is it that once the POC is over, they are free, they may or may not, but they are free to do a vendor search again?

Krishnakumar Natarajan: No, they will clearly need the flexibility which is why, why we believe size is not competitive advantage is, the client expects the vendor to work collaboratively in a flexible manner for them. We are changing our organizational structure, we are going to the market, changing it, we believe we are far well positioned to create and connect with the client and hopefully convert a lot of the proof-of-concepts into the next stage.

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

Dipesh Mehta: Just to get a better understanding about the deal disclosure what we are making. In deal intake, this quarter of $193 million, what would be the contribution from acquisitions? If you can help us excluding acquisition both portion, overall TCV and Digital TCV. Second question is related about Digital TCV tenure. So can you help us understand, let us say $105 million of Digital TCV, how it would be different than others, because when you provide within one year and more than one year, I think it is combined. If you can provide some color about how Digital is shaping up in tenure wise?

Sushanth Pai: This is Sushanth Pai here. Without recent acquisitions the TCV overall would be $185 million instead of $193 million, and out of that Digital would be $100 million, the TCV as compared to the consolidated TCV was total of $193 million and Digital was about $105 million.

Dipesh Mehta: Can you help us about the tenure kind of, how the difference would be in terms of normal and Digital?

Rostow Ravanan: Digital projects typically tend to be shorter compared to traditional application development projects.

Dipesh Mehta: Let us say, within one year, we are suggesting around $157 million and more than one year it is around $36 million. So, out of $105 million of Digital, is it possible to provide some similar break up?

Krishnakumar Natarajan: Again to be honest, I do not think, Dipesh, we have done that mix because like I said as the clients enter into Phase-III which is more the marks to roll out of a digital solution, that could tend to go beyond the year. Out of these 105 which ones are greater than a year. I do not think we have done that break up.

Sushanth Pai: Since overall TCV for greater than 1-year is only 36, majority of the 105 be within a year.

Dipesh Mehta: Then related question is, so Digital is relatively shorter duration and…

Krishnakumar Natarajan: Yes, that is right. That is what Rostow said. Digital is certainly of a shorter duration.

Dipesh Mehta: Whether that brings into volatility in performance depending on the quarter we win, whether you expect our performance would be relatively more volatile considering thereof Digital is growing?

Krishnakumar Natarajan: No, one key thing which probably earlier in the call I shared, we are no more seeing Digital as a discretionary spend, volatility will come, when client feels it is discretionary, they will spend now and next quarter they will stop. Increasingly, we have seen client saying that Digital is not discretionary, we would rather rationalize our portfolio and retire a commodity service and then put that money into Digital. So the demand from the client we see is no more but discretionary but which is going to be fairly even as the quarter sort of progress by. So we do not have a concern that there is going to be volatility, because we see a strong growth momentum in Digital.

Dipesh Mehta: Whether we provide any more colors about margin outlook for the year?

Jagannathan C Narasimhan: As mentioned earlier also, our margin compared to last year there will be some impact in the current financial year although we do not give a guidance, we feel that there will be some amount of impact on that.

Krishnakumar Natarajan: That is again primarily because of the investments that we are doing both in Digital as well as our Platform Services group.

Dipesh Mehta: So considering once the revenue is picking up, we expect it to be better in coming years?

Jagannathan C Narasimhan: We feel our investment cycle should be around 18 to 24 months. We are expecting the margins will stabilize in that timeframe.

Moderator: Thank you. The next question is from Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi: I had a follow up question. KK, how do you see the medium term impact of the automation trend, would this be in the medium term, margin accretive or do you think you will be passing on most of the benefits to the client to win more business?

Krishnakumar Natarajan: Clearly, I think it becomes quite client sort of specific where there is certainly a competitive sort of scenario, it depends in terms of how specific competition is reacting to that. Again, to be very fair, even the client which we said will decline I think at a certain stage we felt that, yes, I think this is the level which we will go, which we can manage margin profile with automation, but beyond that we did not want to sort of stretch ourselves. So at this stage I do not think we have a very clear view but we would like to compete and compete aggressively in cases where we think we can make an impact and over a period of time manage our margin profile. There could be competitive situation, yes, I think somebody will be willing to stretch a little further, where at this point in time our approach is not to sort of get into that. But, "Will that change in the future?" I think we do not have a view now.

Sandeep Muthangi: Compared to last year, how would you categorize the competitive situation in such cases? Do you think it has overall worsened or remained the same?

Krishnakumar Natarajan: On traditional services, clearly, the competitive intensity has certainly intensified, so which is why we do believe in the commoditized services the price compression is going to be higher.

Moderator: Thank you. The next question is from Rishi Jhunjhunwala of Goldman Sachs. Please go ahead.

Rishi Jhunjhunwala: I actually have a couple of bookkeeping questions. So last quarter, in the deal wins breakdown, you had suggested that for the quarter out of the $208 million, renewals were $170 million and new deals were 38, whereas in this time's press release that number has been changed to $120 million and $88 million. Any particular reason for that re-categorization?

Sushanth Pai: There was a methodology change you know that did not reflect correctly last time, so to make the comparison clear we corrected that number.

Rishi Jhunjhunwala: What is the cross currency impact we would have had or the other way to put it, what is the constant currency growth we have had organically and overall this quarter?

Jagannathan C Narasimhan: The cross currency impact we had only is very minimal, about 0.1 %. So it is almost similar level.

Rishi Jhunjhunwala: For next quarter you are suggesting that on a reported basis your growth will be marginally higher than what it was last year on the dollar terms?

Krishnakumar Natarajan: Yes, that is right.

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

Ashish Chopra: KK, my question actually was around Digital. I just wanted to understand where would Mindtree's exposure and focus probably lie if I were to characterize Digital into three major buckets of maybe working around Digital tools and solutions of some other product owners. Secondly, around building your own custom applications, which could be in the area of web commerce and analytic solutions like you gave a few examples. Or thirdly, having your own IPs and platforms, like in the case of the one you acquired with RSI. So where would really the major portion of what Mindtree does rest today and where would your focus be going forward as well?

Krishnakumar Natarajan: I thinks that is a great question Ashish. I would like to sort of give it in two things; one is really the services which you are delivering on Digital, which we see three flavors today, customers are very interested in. One is clearly improving the consumer experience. A lot of it is relating to the front end, which is in terms of innovation and how do you really increase engagement. The second element is how do you improve productivity through Digitalization of your process which makes the customer more competitive and increases the velocity of the organization. The third aspect is really new business margins which clients want to initiate within their organization which are really driven through digital technologies. Now all the three types of engagements you could use the tool as a core to build your solutions which means the role which Mindtree plays is really as a system integrator. We could use in some of the system integration, what is Mindtree's intellectual property which we bring in. Like you correctly said in the case of RSI, there is an intellectual property we have for trade promotion analytics. We embed that as a part of system integration projects which we do in Digital for the customer. The second thing which we are really doing is till now we have not had impact on revenues but it could certainly start coming in over the next two-three quarters is really what we are investing in platform services which are based on Mindtree's intellectual property which we will then take to the customers. So that segment of revenue is not impacting till or at least in this quarter our growth in Digital.

Ashish Chopra: Secondly, from my end, so given that the tenure of Digital business is actually much shorter in conversion to revenues is much faster should we not expect some kind of an offset to the seasonality coming into the second half from these $105 million order of deals that you have won if not in the third quarter then at least in the fourth quarter, would that not be a fair expectation?

Krishnakumar Natarajan: Clearly, if you see, yes, there is a shorter cycle time, but again if you look at this is currently what we book as a business and that sort of we will convert. I think the key element is how many of those go into Stage-2 which could be a larger element of revenues which could come in. It also has a bearing in terms of how we are able to significantly change the way in which we go to market. So we have created an independent sales force which addresses Digital opportunity. Clearly, we are wanting to compress the sale cycle time which currently runs at about 80 days to probably less at least half of that number so that we are able to handle the larger number of opportunities. So it is trying to manage the entire portfolio of how are you able to push through opportunities through the funnel faster and how are you also able to execute faster.

Ashish Chopra: But when you are saying the third quarter being better than the third quarter of last year, it is better than 0.5% reported or the 2% constant currency?

Krishnakumar Natarajan: It is 0.5% reported.

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

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

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