Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Fourth quarter ended March 31, 2015 (Q4 FY2015)

April 24, 2015

Welcome to possible

Moderator: Ladies and Gentlemen, Good Evening and Welcome to the Mindtree Limited Q4 & Year-ended FY15 Results 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. I now hand the conference over to Mr. Sushanth Pai. Thank you. And over to you, Mr. Pai.

Sushanth Pai: Thanks, Shyma. Welcome to the Conference Call to discuss the Financial Results for Mindtree for the Fourth Quarter and Year-ended March 31, 2015. I am Sushanth from the Investor Relations team in Bengaluru.

On this call, we have with the senior management team

N. Krishnakumar – CEO & Managing Director;
Parthasarathy NS – Executive Director and COO;
Jagannathan Chakravarthi – CFO;
Ramesh Gopalakrishnan – Global Head of Delivery and Operations.

The agenda for the session is as follows: Krishnakumar and Jagan will begin with a brief overview of the company's performance, after which we will open the floor for the Q&A session. Please note that this call is meant only for the analysts and investors. In case, there is anyone from media, request you to please disconnect as we just concluded the media briefing before the 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.

N. Krishnakumar: Thanks, Sushanth. I am happy to share with all of you that once again we have delivered industry leading growth of 16.4% in dollar terms in FY15, thereby significantly exceeding the NASSCOM's growth estimates of 12.3% for the industry. Full year revenues for Mindtree were $583.8 million. Q4 revenues was $147.8 million with a growth of 0.1% quarter-on-quarter and 11.3% year-on-year.

The Discoverture acquisition has now been completed and the results take into account $2.7 million of revenues which is two months' revenues of Discoverture. I probably like to add one more point on Q4 revenues, on constant currency terms, the growth was 1.8%.

Other highlights for FY15 results are as follows:

- What has been very satisfying is all our verticals grew well. The Travel and Hospitality segment grew 24.5%; Hi-Tech which has been negative in the last 2-years showed a growth of 16.6%; BFSI grew 18.8%; Retail, CPG, Manufacturing grew 17.2%. So, you would really see that all our industry segments have contributed very well to this industry-leading growth.
- Amongst geographies, US showed a strong growth of 24% year-on-year. Europe grew by 4%.
- As on 31st March, we have 217 active customers. There has been excellent progress on our client metrics during the year. The $30 million customers grew from 3 to 4; $10 million customers grew from 13 to 14; $5 million grew from 24 to 28 and during the year we have our first $50 million customer.
- On the attrition front, LTM attrition was 18.2% as compared to 18.1% last quarter. Quarterly annualized attrition which is important has come down to 18% as compared to 21.3% last quarter and this is in line with what we had indicated to you last quarter.
- We have 14,202 Mindtree Minds reflecting gross additions of 1,517 Mindtree Minds in the quarter.

Now, let me also give you a brief overview of how we are preparing Mindtree for 2020. At Mindtree, we aspire to be in the forefront of delivering transformative digital solutions and providing larger roles for our younger leaders. The changes which we have implemented in the organization also reflect the significant depth and capabilities of our leadership team. Some of the key changes which we have implemented from 1st April are as follows:

- As clients are looking at Mindtree as a "Partner of Choice" for Digital Transformation, all the way from innovation to rapid execution, we are forming a comprehensive digital business group which will be led by R. Radha.

- Our clients are not only looking for Mindtree to consult, design and deploy Cloud solutions, they also want to use as a service model to leverage some of the unique intellectual property which we have and expertise with our own offerings. To address this, we have formed the “Platform Solutions Group” which is led by Gaurav Johri.
- Banking, Financial Services and Insurance will be led by Kamran Ozair.
- Veeraraghavan RK will now focus exclusively on Hi-Tech, Media and Services.
- Ramesh Gopalakrishnan takes over as the Global Head for Delivery and Operations.
- Parthasarathy NS will continue to lead the People function and is also the Chief Operating Officer with specific focus on M&A.
- Rostow will lead the Enterprise Service Clients and also lead some of our key accounts. Jagannathan Chakravarthi takes over as the CFO of Mindtree.

I am also happy to share that we have started our First Residential Training Facility at Bhubaneswar with the goal of creating “Engineers for Tomorrow.” We believe this will be a big strategic differentiator for Mindtree as we are getting talent which is very aligned to the market needs.

Now, let me share with you some of our observations and outlook for Q1 as well as for FY16:

- We have signed orders worth $164 million in Q4. Out of which, renewals are $114 million and new orders were $50 million. Out of this, we have already honored contracts of $54 million; $103 million will be honored in FY16 and $7 million beyond FY16.With this we have signed orders worth $646 million as compared to $509 million in FY14.
- As analysts, you will also observe that Mindtree is probably the first organization to give a very detailed view of our contracts and how does it pan in terms of the financial year.
- We have seen some recent softness in the overall demand but discretionary spending particularly in areas like Digital, continue to be extremely strong. The softness that we see is in Run-the-Business type of technology investments and this is also in-line with Gartner’s recent estimate that global IT spending will shrink by 1.3% this year, down from

the 2.4% growth which they had forecasted about 2-months back. But this downgrade is primarily due to the rise in the value of the US dollar against currency, but the volume growth still continues to be good.

For Mindtree, we expect in FY16, all round growth across all our verticals. We would have some decline in our other segments primarily because as we shared, we had some softness with two of our clients and in the other segment, we will have some decline but all our other industry segments, Retail, Consumer Products, Manufacturing, BFSI, Hi-Tech, as well as Travel and Hospitality, we expect to grow well in FY16. Given the above, we are confident that we will beat the NASSCOM guidance of 12% to 14% for FY16.

For Q1, we expect that we start with a good outlook for the year and revenue momentum will clearly come back during Q1. Overall, the growth in the quarter will be in line with our expectation that we will exceed NASSCOM estimates for the full year.

Now, let me pass on to my colleague, Jagan, to share a few other financial highlights:

Jagannathan Chakravarthi: Thank you, KK.

- In Q4, our revenue growth was flat, volume increased by 1.9% and pricing realization decreased by a similar number.
- EBITDA margins are at 19.4% compared to 20.5% in Q3.
- On a constant currency basis, our margin is at 20.1% which indicates a small decline in margin; this is mainly due to decrease in utilization.
- Forex loss for Q4 was $2.2 million, the rupee appreciated to Rs.62.5 as on March 31st as compared to Rs.63.04 on December 31st. The main reason for the loss is debtors' translation.
- The effective tax rate is 22.7% compared to 22.5% in Q3. For the full year, the ETR is 22.4%.
- PAT for the quarter is at 14% as compared to 15.4% last quarter; PAT increased by 30.5% year-on-year; For the full year, the PAT is 15.1% as compared to 14.9% in FY'14, an increase of about 18%.

- EPS for the quarter is at Rs.15.32, a growth of 30.8% year-on-year; EPS for the full year is at Rs.63.85 which is an increase of about 19% from Rs.53.85 last year.
- Our DSO is 67 days as on March 31st 2015. For the first time in last 5-years we have a DSO which is less than 70 days.
- Our utilization including trainees is 72%, a drop of 0.2% as compared to 71.8% in Q3. Utilization excluding trainees is 71.1% as compared to 74.2% last quarter.
- As on March 31st we have hedges of $40 million at an average rate of Rs.63.5. The hedge are on rolling 3-months basis and will expire in Q1. This includes hedge of Euro to INR of 4.5 million at 70.7 and GBP to INR hedge of 2.25 million at 96.6.
- Capex spend for the quarter is $11.2 million, the Capex for the whole year is $34.5 million.
- Cash position as on March 31st increased to $143 million. EBITDA to free cash flow conversion has been at 49% has come down due to significant Capex spend in this quarter. However, EBITDA to operating cash flow conversion has been healthy at 79%.
- The Board of Directors in its meeting held today have recommended a final dividend of 100%; Rs.10 per share on par value of Rs.10 each for the year-ended March 31st 2015. Accordingly, the cumulative dividend declared by board of directors for the year-ended March 31st 2015, aggregates to 170%, i.e., Rs.17 per equity share of par value of Rs.10 each.

Some of the points on margin outlook for Q1 and FY16.

- For Q1, as KK indicated, we see revenue momentum coming back. However, there are some headwinds in the form of visa cost. Therefore, we see margin being impacted by similar range of what we've witnessed in Q1 of last year.
- We continue to be in forefront of Digital, we will continue to make investment in this area.
- We will also have additional cost on account of our facility expansion.
- For the full year therefore, on a constant currency basis, our margin will be impacted. We will update you on this as we progress.
- This does not factor the impact of currency fluctuation.

- The Capex is estimated to be around $40 million for Financial Year '16 which includes some spill over cost of our Bhubaneswar facility which will be spent in this year.
- The ETR will be in the range of 22-23%.

With this, I hand over for questions from people.

Moderator: Thank you, sir. Ladies and Gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Nitin Mohata from Macquarie. Please go ahead.

Nitin Mohata: I had two questions: Just wanted to understand going forward would you also want to comment on what's the book-to-bill ratio in terms of how does that translate into revenue flow? And secondly, just on the NASSCOM guidance for FY15 and your ability to do better than that, that's just predicated more on an organic basis or has that been factoring in more M&A from here on as well?

N. Krishnakumar: Nitin, we don't track the book-to-bill ratio, so I won't be able to give you an answer on that, we don't track as a metric. Coming to your second question, the NASSCOM guidance of 12-14% and we said we will be better than that, it is purely based in terms of the current business which we have and does not factor into account any acquisitions. M&A is clearly a key priority and Partha personally is driving that and we do see opportunities, but whatever revenue stream comes out of that, will be in addition to this.

Nitin Mohata: Sure, if I can squeeze a second one on the dividend, nice smart increase on the payout ratios. Any broader thoughts in terms of a number that that the board has in mind over a period of time of the payout ratios could be 30%, 40%, or any other form of returning cash back to shareholders?

N. Krishnakumar: Nitin, again, if you really see, I think we've had a consistent approach on increasing value to stakeholders and that really reflects in terms of various forms. I think starting from probably as low as 10, 12% even now our dividend payout has increased to close to 25, 26%, we will continue to sort of keep this, I think the fundamental element is to not get locked into a question, but look at how is it that we will continue to increase stakeholder value and clearly, dividend payout is an important element of it and maybe over the last 2-years you've consistently seen that we've kept that up, we continue to declare quarterly dividends. So we will absolutely work on this. The board is very clear that we need to consciously look at enhancing stakeholder value on a continuing basis.

Moderator: Thank you. The next question is from the line of Aishwarya from Spark Capital. Please go ahead.

Srivatsan: This is Srivatsan here. Just wanted to get your thoughts, in terms of this new management structure, which are the segments that would have P&L responsibilities and which would not have P&L responsibilities?

N. Krishnakumar: Srivatsan, clearly, I think in the company, the P&L responsibilities are with the industry segments, which is Travel and Hospitality, it is Hi-Tech, it is BFSI, and it is Retail, Consumer Products. The Digital business unit is an end-to-end all encompassing unit because we really see in the context of transformative solutions which customers want us to partner, is not expertise in one area, but you need to understand the context of the business and bring in relevant technologies in the context of the problem. So, they really felt through these vertical segments, but clearly, there is a very measurable goal for growth for each one of our key service lines and we anticipate both Digital and Infrastructure Management next year to drive our growth.

Srivatsan: Just continuing on that thought process, you mentioned about a couple of vertical heads. Would it be possible to disclose or is it in the process of identifying the vertical head for something like Travel and Transportation because it is not something that was disclosed in the beginning of the call?

N. Krishnakumar: No, there are already people we have a head for North America, we have a head for Europe, which is our major sort of focus area for Travel and Hospitality. In the case of Retail, Consumer Products, Radha still plays that role but we would expect some

senior person to join there within the next 4 to 6-weeks. Banking and Financial Services head is based out of New York.

Srivatsan: And also in terms of like demand, you did say that there is some amount of softness on the Run-the-Business side of the operation. So is it just renewals are getting delayed or do you see pricing-related pressure? Just wanted your thoughts on what's driving the softness?

N. Krishnakumar: Clearly, I think in Run-the-Business we see two trends – one, there is some level of delay in renewals getting finalized. Certainly, there is some amount of efficiency coming in where clients are demanding better cost competitiveness. So, overall, if you look, maybe the volume of business may still remain constant, but the dollar amount for that we anticipate could decline.

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

Manik Taneja: A couple of questions: Just wanted to understand if you could break up your comments across some of your top clients because over the recent past one has seen both challenges in Q4 in terms of delays in top clients as well as the growth within some of the top clients have been muted. So, if you could give us some sense on what your top clients are dealing going forward? That's question #1. Second question was with regards to attrition for us. If you could give us some sense in terms of why attrition for us continues to inch up on a quarterly annualized level, and would it be fair to assume that the base of employees ex of the contribution from Discoverture attrition would have jumped up sharply in the current quarter?

N. Krishnakumar: Manik, that's not right, clearly, the attrition has come down on a quarterly annualized, and Partha will give more sort of color on the attrition. Just to answer your first question on the top clients, like we shared in the mid-quarter update, we did see some softness or demand concerns with two of our top clients. One of them clearly is recovering and could be a little soft in the first half of the month. We are clear that that demand will come back. So, we are not concerned on that. Whereas in the other client, clearly, we anticipate that revenues for FY16 would decline. If you really look at our other segment, it is reflecting that trend. But if you look at beyond our ten clients, clearly, we are seeing demand being positive. Our 10 to 20 clients are growing. In fact, if we track our top 30 clients, we think clearly it would grow and that's also the reason for the confidence that we will do better than the 12 to 14% industry guidance. So, with that, let me pass on to Partha to give a little more color on the attrition.

Parthasarathy NS: Manik, this is Partha here. As KK mentioned, if you look at our attrition on a quarterly annualized basis, it's come down by a little over 3% points from 21.3% to 18%, this will be a little at the same level, because it takes into account the last 12-months, but going forward, as we indicated in the last quarter as well, we are doing a set of actions to reduce the attrition to a little lower levels than what it has been.

Manik Taneja: Let me interrupt you, basically, your headcount increase essentially includes the employees that are coming through the acquisition?

Parthasarathy NS: That is correct.

Sushanth Pai: Manik, even if you exclude those headcount, attrition still remains with the same level because the base of…

Manik Taneja: The way I was looking at it was the total headcount addition during the current quarter is about 879 people which would include about 300 people from Discoverture, is that correct?

Sushanth Pai: Correct.

Manik Taneja: Which means that that the number of people that who have left the company in the current quarter on a reported basis appears like 638 people, which in actuality would have been 938 ex of Discoverture, is that the right interpretation?

Parthasarathy NS: No, I can probably send a little more details on this, Manik, but actually even if you take the Discoverture additions out on the total, our attrition on a quarterly annualized basis is still at the same 18% level. You know a little more than 200 people who have come in from Discoverture is actually a small number for us to move the attrition number this way or that way.

Manik Taneja: Although you have taken the steps to reduce attrition, if you could give us some sense on which areas, which segments are you actually seeing attrition for us and where are some of these people that who are leaving Mindtree are heading to?

Management: I think if you look at our attrition, like we mentioned in the last quarter, from an experienced point of view, it continues to be in the 3 to 5-year experience range, and if you break it by technologies, it's primarily in the Digital space, either in package implementation in digital commerce or digital marketing kind of areas or in the SMAC areas. I think that is the place we have been losing people and there are set of actions that we are doing to keep that under control.

Manik Taneja: If you could give us some inputs and takes in terms of margins for FY16, what are the factors that will essentially help you protect margins going into FY16 and what are some of the headwinds that you see?

Jagannathan Chakravarthi: Just to give an update, as mentioned in my statement also, we are expecting some headwinds in a form of visa cost in this quarter. The tailwinds for us will be our utilization improvement which will help us to increase our margins.

Moderator: Thank you. The next question is from the line of Kawaljeet Saluja from Kotak. Please go ahead.

Kawaljeet Saluja: I have a couple of questions: First is just following on the previous participant's question, what has been the reason for an increase in attrition in the last three quarters and in this quarter I think it's come down, so, can you just detail the interventions that you have made to bring the attrition down? I think the attrition is still at 18% is high. So what is the kind of attrition level which you will be comfortable with?

Parthasarathy NS: Kawaljeet, Partha here. If you look at the attrition for the last 3-4 quarters, I think it's primarily because of – of the demand that we're seeing in certain specific technologies. And I think that that has only increased in the last couple of months. So, we're clearly seeing it in some specific areas. That the reason why I think the demand which has picked up suddenly in certain areas, there's a shortage of skill across in terms of experience people, primarily the Digital space, and that's the reason why we are seeing increased attrition in that. Now, in terms of specific actions that we are doing, obviously, we clearly have focused the whole organization saying that Digital is going to be at the forefront for all the investments that we make and which what KK alluded to in terms of creating the small mega horizontal which was across different verticals. So that has given a lot of impetus within the organization saying that people who are in the Digital space, I think the opportunity to be much larger. That's point #1. Point #2 is clearly, we have increased our level of engagement that we do with our people across all locations. That is clearly an indication in terms of how we want to control it. And third is at least specifically, we want to look at certain key skills and key people where we have to probably compensate them a little differently, we have already done that in the past, and we will continue to keep looking at that as an opportunity to be able to control attrition. Those are the primary three areas that we are looking at.

Kawaljeet Saluja: KK, as an industry, normally it's a little bit uncommon to have people who have vertical responsibilities move to horizontal roles. So, I just wanted to understand from you, what is the thought process behind the reshuffling of roles and responsibilities in the organization?

N. Krishnakumar: I think Kawaljeet, your question is very valid but increasingly what you are seeing is from a market angle, we do not view Digital Transformation as being a horizontal, because what we see being most impactful is the solutioning which is happening in the context of a business issue. So the knowledge of the domain and the business is extremely important to make impactful Digital Transformation solution. What we also see is a majority of the discretionary spend which enterprises are doing in the Digital space is primarily today focused on improving the consumer experience and that is typically happening in the context of segments like Retail, CPG, where we would think that there is a large spend going to happen. So somebody who understands domain would then be able to translate that in to far more meaningful impact. So, primarily, from a solution building point of view, to provide the entire end-to-end capability so that they could address the real needs of the customer and bringing in the domain flavor when you take what could be perceived as a horizontal service to the customer are key reasons – one for forming a separate end-to-end group and clearly, the choice in terms of who will run it.

Kawaljeet Saluja: So in this case, KK, is there a separate go-to-market and a P&L responsibility for the Digital group or is that subsumed under the verticals?

N. Krishnakumar: There is certainly a go-to-market which is what Jagan talked about saying that there is a significant part of investments going into creating the separate go-to-market. Clearly, at this point in time, since the business is growing so well, we would rather track Digital on very measurable growth targets and margin targets not on a P&L. Kawaljeet, Partha just wants to add a point

Parthasarathy NS: Kawaljeet, one of the other things we are clearly looking at from a go-to-market, one is actually clearly have solutioning people who can look at Digital in a holistic manner, that's #1. And specifically, for some of our large accounts, we are looking at having a Digital account partner who works along with account manager. So, I think that's clearly going to give us an impetus in terms of throwing Digital into existing specific accounts as well.

N. Krishnakumar: Sorry to add a third element, Kawaljeet, what is thinking beyond the solutioning team, in the markets we are forming, what we call "crack teams" because what we see in the Digital space is clients are increasingly expecting quick turnaround of projects, really delivering in a few weeks, which is not fully aligned to the global delivery model. So, we are creating an entire set of solutioning experts as well as teams which can start project and deliver something in 3-4 weeks, which is what we believe is the adoption process of Digital. Customers are talking in terms of proof-of-concept, a small pilot, and then going on to a thing, and the current global delivery model really becomes relevant when you move on to stage-III of the adoption process. So, frankly, we have sort of really applied our mind to reimagining the way in which we deliver Digital, where is it that the teams need to get located to deliver that experience and some of the investments are really going into that.

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

Madhu Babu: Sir, currently what is the deal sizes in this Digital technologies and would they lead to any downstream revenues?

N. Krishnakumar: Currently, like I said in the adoption process, the deal sizes are small. Typically, customers tend to start on the initial proof-of-concept which could be in the $100,000 maybe they move on to the next stage, it could be in the quarter million. There is clearly downstream revenues, because most of those need to then continue because the rapid change in terms of what is delivered also is there. So, unlike maybe a steady flow of maintenance revenue in one of the large initiatives in Digital, which we have now been engaged from two years, there is a consistent enhancement which gives us annuity revenue.

Madhu Babu: And sir, secondly, Infrastructure Management Services second quarter it has been a bit tepid. So, is there a waning momentum in that service line?

N. Krishnakumar: No, actually if you have seen my earlier comments, we said out of our top ten clients, there are two where we see softness in terms of demand and one of them is in the

Infrastructure space. So part of the decline has been primarily because of the softness or because of decrease in revenue from that client, but clearly, we are seeing a good funnel in that business and we are seeing new wins coming in.

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

Mohit Jain: Two questions: One is on your volume growth. If you look at last four, five quarters, it has been consistently coming off from the peak that we saw in the first quarter. So, any comments on that although our deal pipeline comments, etc., has not changed? And second, is it because of some softness or pricing pressure as you alluded to in the beginning on the ADM and IMS service lines?

N. Krishnakumar: No, I think the volume growth is more limited in terms of the way in which we engage the business, because, like we talked about the percentage of Digital business is now about 32% and many of the engagements there are short-term in nature. So, there is some level of after the proof-of-concept, it does not mean that client immediately moves on to the next stage. There is some sort of gap with respect to when the next stage starts. The other key element in terms of volume growth is if you have seen our FMC which is also including the fix monthly contract, that percentage is in the mid-40 range where again, I think clients are increasingly wanting to move more to the managed services where the level of effort is not in a way relating to what you charge for. So, as long as you can drive productivity, automation in that, I think that's really what we are engaged on.

Mohit Jain: So in that case, should we expect some increase in realization or derived pricing?

N. Krishnakumar: In some cases, I think the realized pricing is a bit of thing because like last quarter we had an increase both in terms of our fixed price contracts as well as IP revenues so the realized rate tends to go up, whereas I think it is really dependent in terms of contracting commercial things which impact the realized pricing which is really fixed price and the IP related revenues.

Mohit Jain: Do you have the active client number excluding Discoverture?

N. Krishnakumar: It's 198.

Mohit Jain: When should we expect this number to start inching up?

N. Krishnakumar: Clients numbers?

Mohit Jain: Active clients.

N. Krishnakumar: Again, I tell you, our focus is not just to keep increasing clients in a dramatic way, but really go after what we think are must-win accounts. So, you will continue to see that maybe we don't add 15, 20 clients but we will be focused on a few clients and win key clients. So we don't expect the active clients to go up dramatically.

Mohit Jain: So, the entire growth that you're talking about for the next year could possibly come from existing clients?

N. Krishnakumar: No, beyond the existing clients, clearly, our target is to increase the percentage of what we call, "new clients-new wins." But in fact, we are in an opportunity where it could be a multi-year multi-million dollar type of wins. So it will just be a one client, but will give us good run rate for FY16.

Mohit Jain: Any specific reason for the guidance of a little lower margin next year given that our utilization, etc., remain at comfortable levels and given employee pyramid, I think we discussed with one or two quarters back, but we were focusing on medium-term increase in margins?

Jagannathan Chakravarthi: Mohit, this is Jagan here. There is a tailwind for us in utilization, but we are also investing on Digital and Platforms because of our investments we are expecting some headwinds there.

Mohit Jain: This will be predominantly into employee cost, is it?

Jagannathan Chakravarthi: It will be.

N. Krishnakumar: Again, Mohit, just to complete this thought process, clearly, next year will be an investment both in Digital and Platforms. We did share that we are putting in a significant effort into creating what we call the "Engineers of Tomorrow." So, there will be some additional expenses which we will incur in our campus in Bhubaneswar. There will be in terms of areas like Digital, increase in spend in the marketing sort of a thing, both account-based marketing as well as to overall improve our visibility in that space. So, to that extent, we think this is an opportunity which will play out. Yes, we need to invest next year, but that will clearly get derived in terms of better growth rates in the subsequent periods.

Mohit Jain: And just to end, if you are not seeing any pressure on ADM yet because of this transition?

N. Krishnakumar: No, we do see pressure on ADM which is why when I started sharing my perspectives, I said, we see some softness primarily because of the strengthening of the US dollar, there is pressure on Run-the-Business either in terms of providing more cost effectiveness or rethinking in terms of how those will be delivered in which case some renewals are getting sort of extended.

Mohit Jain: I was specifically referring to new technologies rather than the currency because of the entire focus on Digital or SMAC, you do not see pricing on ADM side under pressure?

N. Krishnakumar: No, all the discretionary spend relating to Digital, we are not seeing any concern at all. We see actually that environment being very strong.

Moderator: Thank you. The next question is from the line of Abhishek Shindadkar from ICICI Securities. Please go ahead.

Abhishek Shindadkar: Sir, there has been a significant strength in the top client especially in the Q4. Could you just highlight what's happening especially with our top client and what service lines are driving this growth?

N. Krishnakumar: Again, Abhishek, like I mentioned, I think this is more anecdotal this quarter because like we shared earlier, two of our top clients we had softness in demand in Q4. So the percentage has really gone up, otherwise the top client is growing at the company average in terms of growth. So, it's more anecdotal. But, we continue to deliver a variety of services to this top client starting from Product Engineering Services to Data and Analytics to Infrastructure Management and Testing.

Moderator: Thank you. The next question is from the line of Surendra Goyal from Citigroup. Please go ahead.

Surendra Goyal: So KK, could you share that out of the $640-odd million of deal wins that you've had this year, how much is expected to be executed in FY16?

N. Krishnakumar: Surendra, we've done that for Q4, I won't have the data for the whole year, maybe we can revert back to you.

Surendra Goyal: And sorry I missed the first part of the call so did you say that you expect to deliver more than 14% growth in FY16, which is the higher end of the NASSCOM guidance?

N. Krishnakumar: No, we said the NASSCOM range for FY16 which they have indicated is 12-14%. What we said was at this point, we expect to do better than that.

Surendra Goyal: On the first quarter, you said that revenue momentum should pick up. So should we expect the first quarter to be somewhat similar to last year in terms of strength or do you think it will start a little slow and then improve going forward?

N. Krishnakumar: Surendra, last year we had a great Q1; 6.1% I must be honest I don't think we will reach that level of momentum, but if you look at our historical growth rates, like we said, the Q1 growth will be in such a way that we will beat the NASSCOM guidance of 12-14%.

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

Sagar Rastogi: This is Sagar Rastogi from Ambit Capital. I have two actually: One, there's a media report which has stated that about half a dozen members of senior management, which they define as VP and above, have resigned recently. So first, is this true, and if so, could you give us some color on the reasons for the same?

N. Krishnakumar: I think that's a good question and just to give you a context, I think we've been really preparing Mindtree in terms of what should be Mindtree as an organization for 2020 and clearly, keeping in line with that aspiration, we really announced an organizational change which will really prepare Mindtree for 2020. Really at the forefront of this is really our aspiration to be a leader in the Digital Solutions as well as leverage Mindtree's intellectual platforms to build platform-based services. We also believe the change will provide larger roles for many of our younger leaders. So, in any transition, which we really believe is important for the future, there are key changes which we need to do. And just to give you an example, my own reportees which are about 11, the average age of my reportees has dropped to the early 40s, in a way I think it makes me younger because I am more energetic because younger people are working with me but this is a normal process in which every organization go through a change when you believe there's a certain direction which you want to take in terms of the future. And again, I will give you a very unrelated example because I think business is becoming like an F1 race, you have to change tyres and in the next course if you have to accelerate, you have to change some of the elements of it. We believe that this will be something which is path-breaking for Mindtree and it will set up for things, and in a way while whatever the media may write about it, judge it by our performance, because it's not really in a way by accident in three years we've delivered consistently industry-leading growth and we think we will continue to deliver it for the next five-years.

Sagar Rastogi: Thanks, KK, that was quite useful and I appreciate that this must have been a tough call that you have taken and it's probably the right thing to do. Just one follow-up on that. Like you said this transition is important for the long-term, but you do have these really capable people, but it might take them a bit of time to settle into their new roles. So should we as analysts expect some near-term moderation in growth on account of this factor?

N. Krishnakumar: Clearly, the way in which we prepared the leadership, we will deliver what we think is the right growth and like I said, 40 people in our senior exec teams have changed roles but we will not miss a flutter in terms of our Q1 growth. So, there is no question of moderating our growth. We will deliver every quarter.

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

Sandeep Shah: Just a question in terms of FY16 growth outlook. As we are saying that we will likely to achieve higher than NASSCOM average of 12-14%. So for 14% growth, the compounded Q-o-Q growth rate would be anywhere between 4.8% to 4.9%, while for FY15 the compounded Q-o-Q growth rate was 3.8%, and in FY16 we are entering with some amount of softness in some of the top clients, which was not been there for the 12 months of FY15 plus there is some reorg changes which we are doing. So, what is driving this confidence, is it like in terms of the expected deal signings or is it in terms of what we have on the table?

N. Krishnakumar: One element which will certainly drive this which is a simple math is that while the Discoverture revenues were there only for 2-months, we will get the advantage of the Discoverture revenues for the whole year. So, that is something which needs to be factored into that. And if you factor that in, clearly, we anticipate and like I said while we will not have bonus like 6.3% is what we delivered in Q1 of FY15, we may not be at that level but we certainly be historically in Q1, we've been in the 3-4% level. That's really what we anticipate to start with. And once you really start with a good growth in Q1, then the momentum in this business is good to pick up and at this point in time, we clearly see that momentum happening. You are right, clearly, there are also some contract signing which we anticipate that right now there is a multi-year, multi-million dollar deal which we anticipate could be signed over the next 3-4 weeks. That will also provide some level of revenue momentum to what we anticipate. And on the clients, your question is right, out of the two clients, we anticipate one certainly to decline in terms of revenue in FY15, while for the second client, it's primarily shift in terms of demand and we anticipate during Q1 and Q2, the demand will come back to normal. So, all these elements give us the comfort level that we will sort of beat the NASSCOM estimates of 12-14%.

Sandeep Shah: And just coming to the margins, I missed the reply. What is the outlook for FY16 and what is the outlook for the Q1 FY16?

Jagannathan Chakravarthi: Sandeep, this is Jagan here. The outlook for FY16, we are expecting some softness on the margin trend. We will update you once we get a more clearer picture. The headwinds for us is actually about our investment which we are investing on Digital and Platforms. So that will be a headwind. There are tailwinds like better utilization; we have some scope in utilization, that will have tailwind. We will update you about the whole year going forward. For the Q1, major headwind will be the visa cost for us. So we are expecting some amount of challenge from the margin perspective.

Sandeep Shah: Why I am asking is the difference of FY15 margin versus the Q4 exit rate, it's almost like 100 basis points, and over above that we will have some cross currency headwinds as well as the wage inflation. So, one can say that there could be some margin pressure on the Q4 levels as well or we are saying on a YoY basis of FY15 versus FY16?

N. Krishna Kumar: It's overall. FY15, we will end up at 19.9% which is very much with what we indicated at the start of the year that we will maintain a band of 19-20%. So, on a year-on-year basis, what Jagan says is yes, there will be some pressure on that margin.

Sandeep Shah: On a full-year basis not compare…?

N. Krishnakumar: On a full-year basis, that's right.

Sandeep Shah: Not compared to the Q4 exit rate?

N. Krishnakumar: No, on a full year basis.

Sandeep Shah: Sorry to repeat this, can you briefly tell what is the reorganizational change which we are planning?

N. Krishnakumar: What we announced and we've implemented since 1st April is we see a clear opportunity and a level playing field in the whole new discretionary spend which is on Digital Transformation. But we will see also a clear that is not individual silos of expertise which we need to have, we need to have a fairly integrated group which is why we have formed a Digital Solutions Group which encompasses Social, it encompasses Mobility, Analytics, Cloud so that we could present a single uniform face to the customer. So that's one big change. The second key thing is we have formed a group which really builds Mindtree's intellectual property and for non-core areas offers it has a service to the client. So that's another key change. Consequent to these two changes, we've also had people changing roles, like Rostow was the CFO for 11-years, he's now in the business role where he runs key accounts, all the service lines as well as he's responsible for Europe, Jagan has taken over as the new CFO; we have a change in terms of Sushanth still handling Investor Relations as well as Risk, so he becomes the Chief Risk Officer; the BFSI Group is now going to be run by a colleague, who's based out of New York, who used to run our largest account, Microsoft, and Veeraraghavan who used to be the Global Head of Delivery, now runs Hi-Tech, Media, Services, and in his place, we've Ramesh Gopalakrishnan who's now become the Global Head of Delivery and Operations. But the larger theme in terms of all these changes is we want to give our younger leaders larger roles and that's also one of the drivers in terms of this change.

Moderator: Thank you. The next question is from the line of Abhiram Eleswarapu from BNP Paribas. Please go ahead.

Abhiram Eleswarapu: My question is regarding the margins for the quarter. I may have missed your initial commentary, but if I look at your March 6th announcement, I think it said something to the effect of there would be a small decline in margins. However, I think the margins fallen a bit more than what we expected. So, could you detail out the pluses and minuses that led to that?

Jagannathan Chakravarthi: Abhiram, this is Jagan here. Our margin for the quarter was 19.4% compared to 20.5% of last quarter, but on constant currency basis, if you see, our margin is 20.1% compared to 20.4%. So, margin drop has been very small compared to last quarter. The impact is mainly because of currency.

Sushanth Pai: Mainly due to utilization decline that happened in a quarter, that's one of the main reasons for the small margin decline.

Abhiram Eleswarapu: One more question is I missed some of the details that you gave out in the beginning on hedges. If you could repeat that, it would be great.

Jagannathan Chakravarthi: Yes, sure.

Sushanth Pai: We have about $40 million of hedges at an average rate of 63.5 and we continue our policy that our hedges are on a rolling 3-month basis. So therefore, this expire in Q1. We also mentioned something about Euro-INR and GBP-INR hedges which is part of the $40 million, so we call that out separately, Euro-INR hedges are about 4.5 million at 70.7 and GBP-INR hedges are at about 2.25 million at 96.6.

Abhiram Eleswarapu: May I just suggest that in the future quarters if you could put this out in the release itself, that would really help. Thank you very much.

N. Krishnakumar: The hedging numbers, Abhiram?

Abhiram Eleswarapu: Yes, hedging, even the order book that you have been talking about. Actually that's a fantastic piece of information if it's also there in the release itself, that would really help us.

N. Krishnakumar: In the fact sheet probably you are telling

Abhiram Eleswarapu: That's it.

N. Krishnakumar: Yes, that's very useful input, we'll sort of look at and do it. Again, our intention and idea is to see how much more of factual information we can give. So any suggestions on that is welcome.

Moderator: Thank you. The next question is from the line of Gaurav Ratheria from Morgan Stanley. Please go ahead.

Gaurav Ratheria: Hi, KK, just two questions from my side: Firstly, has your growth expectations come down for the next 12 months due to those client-specific issues or do you think it has not changed at all because of some offsetting factors?

N. Krishnakumar: Gaurav, certainly, yes, the growth expectations has come down and to a large extent if one were to go back to our Jan time period when we declared the Q3 results, we would have been a little more bullish on the growth outlook for FY16. So, yes, these two client things have marginally brought down the goal setting. What we also anticipate even out of the two clients, while one will decline, which is clear, the second one, the demand is just getting shifted, it could be soft in the first half of the year but we are very clear that second half of the year it will come back. So, our growth expectation compared to what we had in Jan to now has moderated.

Gaurav Ratheria: KK, could you please quantify in terms of how much of the growth for next year got shaved off because of these reasons for those two clients? And secondly, if you could also quantify the investments which are being planned for the next year, which is kind of leading to a softer margin outlook for next year?

N. Krishnakumar: Again, Gaurav, we don't sort of share these numbers, all I can say is clearly, there is a significant investment going into our Digital space and if you've sort of been on the call, I think Partha went into great bit of detail on Kawaljeet's questions on how are we planning to sort of make that different. The second key area is our platform. What is ongoing or continuing as an investment will be continuing investments we'll put into our campus at Bhubaneswar as well as during this year, there will be investments in our client-facing teams in both UK and Europe. So broadly, this will be the four buckets and probably, yes, there is also an increase in the marketing budgets for both Digital and Platform. So, these would be the four sort of buckets and this will create some headwinds for margin for FY16.

Gaurav Ratheria: Right, KK, thanks, that's very useful. I was just trying to get to a budget which you might have been planned at the start of the year in terms of the investments. But Yes, this is very useful. Thank you.

Moderator: Thank you. We'll take the last question from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Most of it has been answered, just the book-keeping ones. So if you see the depreciation number has gone up from Rs.26 crores to Rs.29 crores. Is this because of the consolidation that has happened? Is this the going run rate here on?

Sushanth Pai: Yes, the depreciation increase is mainly due to additional facilities – one is Bhubaneswar and also our internal facilities in other locations. So together that has caused a little bit of increase in depreciation.

N. Krishnakumar: Rahul, we've almost doubled our capacity in at least two or three major locations, clearly, we also want to be more sort of spread our risk in terms of locations. So we've increased capacity in Chennai. Bhubaneswar is a new 20 acres campus on which we've spent a significant Capex. So that depreciation is coming. So, this would be ongoing from now on. So it's not that it's a one-time.

Rahul Jain: And similarly the other income number also look much higher versus the previous quarter if you could explain that?

Jagannathan Chakravarthi: Rahul, this is Jagan here. In the budget in the current year they have changed the taxation – treatment of taxation for (FMP) Fixed Maturity Plan. So, we have withdrawn money from the Fixed Maturity Plan and we are getting into other investments mode. So because of that, our other income has increased substantially this quarter.

Rahul Jain: And lastly, what could be the ideal effective tax rate for fiscal?

Jagannathan Chakravarthi: It will be between 22 to 23% next year also.

Moderator: Thank you. I now hand the floor back to Mr. Sushanth Pai for any 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 to you in the coming days. Thank you.

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