Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Third Quarter ended December 31, 2015 (Q3 FY2016)

January 18, 2016

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mindtree Limited Conference Call to Discuss the Third 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 '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sushanth Pai. Thank you and over to you, sir.

Sushanth Pai: Thanks, Inba. Welcome to the Conference Call to Discuss the Financial Results for Mindtree for the Third Quarter ended December 31, 2015. I am Sushanth from the Investor Relations team in Bangalore.

Before we start the proceedings I would like to wish you all a happy and prosperous 2016. 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 – Chief Financial Officer;

Ramesh Gopalakrishnan – Global Head of Delivery and Operations.

The agenda for the session is as follows: Krishnakumar and Jagan will begin with a brief overview of the company's performance after which we will open the floor for the Q&A session. Since we have introduced an audio webcast some of you may have joined the webcast, the webcast is a listen-only mode but you can post questions. We will take the webcast questions once we complete the questions through the conference call mode. Please note that this call is meant only for the analysts and investors. In case there is anyone from the media, we 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 statements periodically. I now pass it on to Krishnakumar.

Krishnakumar Natarajan: Thanks, Sushanth. Let me also add my good wishes to all of you for a very happy, healthy and successful 2016. I am happy to share that Mindtree had a great quarter three despite quarter three being a traditionally weak quarter.

The Chennai flood situation was managed well driven by our effective business continuity management thereby ensuring minimal disruptions for our clients. We ensured safety of our people and extended support to Mindtree minds and support staff. This event also saw the largest transportation of people between Chennai and Bangalore which was managed outstandingly by our busy admin team. This has resulted in minimal impact of 0.1% to revenues though we incurred additional costs due to this.

If we exclude the acquisitions during the year, our revenues grew 3.4% quarter-on-quarter and 17.3% year-on-year in dollar terms. Constant currency growth was 4% quarter-on-quarter. Excluding acquisition, this makes it the makes the best quarter three since quarter three of FY11. Including acquisitions, consolidated revenues were at $184.4 million, a growth of 2.3% quarter-on-quarter and 24.8% year-on-year. On a constant currency basis, revenues grew 3% quarter-on-quarter. Our acquired entity Bluefin had a muted quarter due to seasonality and we expect growth momentum to come back there in Q4.

We are also happy to announce that Mindtree has entered into a definitive agreement to acquire 100% equity interest in Magnet 360 LLC, a platinum Salesforce partner specializing in multi-cloud solutions, consulting services and implementation based in US. Magnet 360 is an award winning partner within the Salesforce ecosystem. It is one of the 18 managed partners of Salesforce and is also featured in the Forbes top 100 list of most promising companies in America 2014. Salesforce is also a strategic investor in Magnet 360.

If you look at our past acquisitions, Bluefin, a SAP HANA player added capabilities in digitizing the value chain and RSI, an analytics player added capabilities in building sense and response system. Now with Salesforce sophisticated ecosystem of product and platforms namely Sales, Service, Marketing, Community, Analytics, IoT Clouds and Force.com PaaS for ADM. It gives significantly better capabilities to enhance our digital story and provide comprehensive digital offering across the entire spectrum of IT systems, that is both system of engagement and system of records.

There is a huge market for Salesforce services. According to IDC it is estimated to be $135 billion over the next five years. This acquisition will add many highly referenceable clients across manufacturing, retail, CPG and financial service industry and a little over 100 plus Salesforce certified experts based in US.

Magnet 360 is a consulting led onsite business and hence their billing rates are higher, and so the costs. The calendar year 2015 revenues are $25 million and their margin profile is below the Mindtree margin profile. We see many cost synergies which will improve the margins in the coming quarters. This is an all cash transaction for $50 million, the consideration includes upfront payments of US$37 million, earn outs and additional payouts up to US$ 13 million over the next two years. The transaction is subject to customary closing conditions.

Some of the other highlights of our results are as follows:

On verticals, BFSI grew 4.1%, retail CPG manufacturing grew by 1.1%, travel and hospitality grew 15.5% quarter-on-quarter mainly driven by ramp up by existing clients and certain new wins. Our technology and media services showed a growth of 1.6% quarter-on-quarter. Amongst service lines, development grew 4.3% and IMTS grew by 9.4%. All our geographies did well, US showed a growth of 2.6% quarter-on-quarter, Europe showed a growth of 1.7% quarter-on-quarter, if you exclude Bluefin, Europe growth would have been 4.6% quarter-on-quarter.

We have 294 active customers, new clients added during the quarter was 23. What has also been heartening is the progress we have made on attrition, LTM attrition is reduced to 16% as compared to 17.1% last quarter, quarterly annualized is at 15.9% as compared to 16.6% last quarter. We have 16,243 Mindtree minds reflecting a gross addition of 1,306 Mindtree minds in the quarter, and this is again a very strong headcount addition during the quarter.

We have also had some strong multi-year multi-million dollar wins as follows:

- A leading travel management company chose Mindtree to provide application development and support services.
- A global manufacturing and engineering company chose Mindtree to provide infrastructure services across the globe.
- An international financial institution chose Mindtree to provide IT services in multiple areas.

We are also happy to share with you that today Mindtree announced top level organizational changes which will be effective 1st April. Rostow Ravanan takes over as CEO and Managing Director, Krishnakumar Natarajan takes over as Executive Chairman, Subroto Bagchi steps down as Executive Chairman and will continue as a Member of the Board of Directors of Mindtree. This is a culmination of a yearlong succession planning exercise that the board had undertaken and after carefully considering several internal and external candidates. We are happy with the process and the outcome. We believe that Mindtree with its stellar management team is fully ready for the opportunities and the challenges ahead and we clearly believe we will be a leader in the emerging services space. The board also today recognized and thanked Subroto for his invaluable contribution and inspirational leadership for Mindtree over the last several years.

And some more details of Rostow – Rostow Ravanan 44 years in age is a member of the Institute of Chartered Accountants of India and Institute of Company Secretary and is also an alumni of the Harvard Business School. In April 2014 he stepped out of his role as Chief Financial Officer and took over as Head for Europe, Service Lines and Key Accounts and as I shared earlier, Europe has delivered significantly better results over the last couple of quarters with Rostow's involvement there. Rostow has also won several industry recognition in his previous role as CFO.

Some points now on outlook for Quarter 4:

We have signed orders worth $204 million in quarter three out of which renewals were for $153 million and new orders were for $51 million. Out of this orders for less than one year was $180 million and the balance $24 million is for greater than one year. We had $82 million of contracts closed in our digital business, so we continue to have very strong contract closures.

Since it's the beginning of the calendar year and customers finalize their budgets during the beginning of the calendar year, we are seeing little time delay in budgets being frozen and we are also seeing price compression or price competitiveness in renewals happening in traditional services. Given all these above factors, we expect quarter four to be slightly better than quarter three in terms of revenue growth excluding the recent acquisition of Magnet 360. Overall for FY16, we maintain that we will beat NASSCOM estimates, even excluding the acquisitions of the current year.

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

Jagannathan C. Narasimhan: Thank you KK. In Q3 our fee revenue grew by 1.9%, volumes declined by 1.8% and price realization increased by 3.7%. Excluding the acquisition, fee revenues grew by 2.9%, volume declined by 1.7% and rate realization increased by 4.6%. EBITDA margin excluding acquisition are at 18.7% compared to 19.1% in Q2. We had an increase in cost due to salary increases for 28% of our people and also capacity addition reflected in reduced utilization impacting margins by 0.7%. This was offset by net currency benefit of 0.3%. Including acquisition, EBITDA margins are at 17.7% as compared to 18.5% in Q2 due to lower margin profile of Bluefin. Forex gain in Q3 is about $1.4 million as compared to gain of $1 million in Q2. Effective tax rate is at 22.7% as compared to 22.5% in Q2. PAT for the quarter is at 12.4% as compared to 13.5% last quarter, the PAT decreased by 5.9% quarter-on-quarter.

EPS is at INR 17.95, quarter-on-quarter decline of 4.6% and year-on-year growth of 7.2%. Our DSO is at 71 days as compared to 77 days last quarter. Our utilization including trainees is at 68.5% as compared to 71.4% in Q2. Utilization excluding trainees is at 69.9% as compared to 73.3% last quarter.

Hedges, as of 31st December we have hedges of $42 million at an average rate of 67. These hedges are on a rolling three months' basis and will expire in Q4. This includes hedges of Euro-INR of 4.25 million at 73.96 and GBP-INR hedge of 2 million at 102.25. Capex spend for the quarter is $5.5 million, YTD Capex is $16.9 million. Cash position is at $97 million, EBITDA to operating cash flow conversion was strong at 101% and free cash flow was at 80%. Return on capital employed is at 33.9% as compared to 37.4% in Q2.

The Board of Directors at meeting held on January 18, 2016, recommended an interim dividend of 40%, Rs.4 per equity share of par value of Rs.10 each for the quarter ended 31st December 2015. The Board of Directors at their meeting held on January 18, 2016, recommended an issue of bonus share in the ratio of 1:1, i.e. one additional equity share for every existing equity share, this is subject to shareholders' approval. Bonus share will be credited to shareholders after completion of statutory formalities and within the prescribed statutory timeline.

Some point on margin outlook for Q4:

We expect about 500 campus additions in Q4. Given the growth indicated by KK earlier, we expect the margin in Q4 to be marginally better than Q3, this does not include impact of Magnet 360 acquisition and any currency fluctuation. Overall, financial year 2016 we had indicated earlier that our margins should be impacted due to investments, facility expansion cost, etc. We are on track as per our earlier indication.

With this I now pass it back to Sushanth.

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

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Sandeep Muthangi of IIFL. Please go ahead.

Sandeep Muthangi: Hey, I have a couple of questions, my first question is when you compare the state at which the demand environment is and the state at which the year on progress is at this time of the year compared to last year, do you see any material change with respect to traction and how does that make you feel about the year going ahead?

Krishnakumar Natarajan: Should I answer this first Sandeep, because you said you had a couple of questions?

Sandeep Muthangi: Yes sure, go ahead, please answer that, I will follow-up with another question.

Krishnakumar Natarajan: Like I mentioned during my opening comments, I think it is little early in the year because many clients are starting to certainly think in terms of the budget. But clearly we do not see a material difference between the conversation we had in January 2015 to January 2016, there are no negative sentiments from the clients at all. At the same time, I think certainly clients are wherever conversations of renewals of traditional services happens the indication we get is clearly there is going to be an expectation of more competitive price in traditional services. So overall we do believe we do not see a negative trend, we still see a demand funnel being healthy as it was in January 2015 also, in 2016 we do see the demand funnel being healthy. Customer conversations, I would not say positive, it is not negative, so to that extent we do not see any bounce ahead as far as 2016 budgets are concerned.

Sandeep Muthangi: My second question is on the acquisitions, last year has been quite heavy on the acquisitions, you spent close to $150 million, I want to check with you whether this was some sort of gaps that you have identified and the major acquisitions you have done or this is the new normal of acquiring capabilities and having as early a stance in the digital space as possible. I just want to see if we are at the middle of a major acquisition phase or whether this is something that is going to continue?

Krishnakumar Natarajan: Sandeep again I think a great question, as far as we see it, I think what we articulated clearly, I think in the digital space the clients were really focusing on the systems of engagement which is really improving the consumer experience. So RSI acquisition which we announced in July or the Discoverture acquisition which we announced in February were really addressing these gaps in specific industries, Discoverture was primarily in the Property Casualty insurance industry, RSI was primarily in the CPG retail space alone. Clearly we do anticipate in the next 12 months customers to start digitizing the system of records also which is where we acquired Bluefin for their SAP HANA capabilities because a lot of backend when it gets converted to more digitally friendly infrastructure we believe SAP HANA is going to be a winner. Magnet 360 really addresses the need in terms of trying to capture a larger percentage of software as a service, because if you look at even the McKinsey estimate they do believe 40% of enterprise spend will move on to software as a service or if we just look at Salesforce service market itself which IDC is saying is about $135 billion. So with these four I think we have pretty much addressed a lot of key gaps which we have because we do think the market in digital is expanding rapidly, it is important to have a first mover advantage and consequently we have also relied on getting capabilities in an inorganic manner, but at the same time I think we are treating this very differently which maybe some time when we meet face-to-face Partha will share with you the details of that. Going forward, certainly I think we will be very selective but once again I just want to reemphasize, our strategy on acquisition is to really drive our vision and the strategy of being a leader in the digital services space, and anything which makes in that context is what we will acquire. Clearly I do not think there will be such accelerated sort of acquisition for the next 12 months.

Sandeep Muthangi: Just one quick question for Rostow, I had to ask him this. Rostow, in the past couple of years we have seen major changes in terms of strategy or a major emphasis on a few areas at Mindtree be it hunting or mining or building scalable businesses, when you will take over as the CEO do you think it will be more of an evolutionary kind of phase or strategy that you will adopt or do you think there are a few areas that require a lot of attention right now?

Rostow Ravanan: At this point of time I can answer your question at two levels, firstly, there will obviously be a lot of priority that Mindtree needs to focus on a near-term basis, that we are doing in the middle of our annual planning and strategy exercise in the next four to eight weeks. Those immediate priorities will get frozen and obviously collectively all of us will put our best efforts behind door. But on a structural basis or for like a strategic feel basis, I think we have collectively developed a great platform and I do not anticipate any radical changes to any of the initiatives we have done over the last two or three years, I think it will be to sort of continue the momentum, deliver great results both for customer and create exciting opportunities for our people.

Moderator: Thank you. Our next question is from the line of Nitin Mohta of Macquarie. Please go ahead.

Nitin Mohta: My question was on digital, if I look at the revenue trend for this quarter as well as the TCV for deal win in digital seem to be kind of hitting a soft patch, so it was just a normal seasonality or are you seeing something at this point of time?

Krishnakumar Natarajan: Nitin it is a very interesting question, when we really looked at the data what we do see is like I have always said is for digital, still a good part of the business is very experimental which is customers give small value of orders which they tend to experiment and do. As we end the budget cycle of the customers we certainly saw that experimentation probably because they run out of budget, not really happening, which is why clearly you find that the contract closures in digital in this quarter, quarter three at 82 million whereas last quarter at any quarter it was 114 million range. But here again we find a very interesting difference which is probably for the first time we have noticed, I think we are finding customers where in some initiative particularly with one key customer of ours, they have moved to what I would call really stage three of the digital maturity where they have gone through experimentation, they have rolled out a large program, they have now gone to the operations and support of that large digital initiative. So one of the deals we closed this year was a multi-year, multi-million dollar deal with one of our key clients. So we do anticipate that some of the initiatives which are either in the experimental stage or the run out stage to really start reflecting in terms of annuity multi-year based deals, hopefully during the next few quarters I see that transition also happening.

Nitin Mohta: That is helpful KK. And my second question was more on the margin front in kind of trying to tie that in with the acquisition strategy that you guys have been talking about, should we really think given the changes that are happening on the technology side, we should be okay with even a 15% kind of an EBIT margin number or that is more of a near-term blip given we are trying to assimilate all the acquisitions that we have done and we should be back to that 17%, 18% mark?

Krishnakumar Natarajan: Clearly our goal and aspiration is to clearly be in the 17% - 18% level, because the factors, the reality of the business in what clients are undertaking today, the onsite focus of business or what you call the most consulting led business is higher. But even with the current acquisitions we have taken like Bluefin we have clearly started identifying the cost synergies and how will we start moving part of the work backend. Interestingly in Bluefin this it is a small win, we had the first win where we could really start experimenting with what sort of cost synergy we could drive. And the goal is clearly to try and start moving even acquisitions which today are a much lower EBITDA profile than Mindtree to start moving up, but to be fair I think they will never reach the Mindtree level. But overall our goal is try and see how we will drive the synergies well and move up their margins, it is going to something which will take us four to six quarters. And frankly in a very lighter way, we have Rostow who is really the best person to drive this.

Moderator: Thank you. Our next question is from the line of Sandeep Agarwal of Edelweiss. Please go ahead.

Sandeep Agarwal: Rostow and KK I have a couple questions, one, on the growth side. Although you have already answered it in different ways, but I would like to still have some more understanding on that front. Given we being focused on the digital side for quite some time now and a large portion of our business are coming in from digital, do you see the kind of growth which other very larger MNC players are posting in the digital, are we also hitting that number or maybe more because of our size being a little smaller? Secondly, do you see that going forward given some kind of pressure in the traditional commoditized business we will have a huge compensatory set off from digital and still are significantly leeway will be there to post the kind of numbers which we are expecting like 17% - 18% that is their aspirational number. So if any thought on that side it would be helpful.

Rostow Ravanan: Multiple parts to your question and let me try and answer all of them as best as I can. Firstly, obviously we do not give a guidance so therefore I would not comment on whatever growth percentage for next year or even over the medium-term would be, the only thing I would say is like we have always explained in the past, our aspiration is grow faster than the industry as a whole. If you look at every year over the last three or four years Mindtree has done better than the industry average and that is the sort of same thought process we have of how can we grow faster than the industry, which means we will perform brilliantly, we will take market share away from competition, but also build it on the basis of delivering innovative and sustainable sort of value to our customers. So that fundamental philosophy does not change. Digital will continue to be a strength area for Mindtree, it is already a third of our business, we have delivered some really-really outstanding projects with some of our customers which have made very-very significant impact either in terms of revenues or similar opportunities to allow an enterprise to get close to their customer or also in terms of intra-enterprise collaboration where some of these technologies can help enterprises connect better within their own workforce. We have delivered some outstanding sort of work in both of those segments, we continue to play to our strengths on those areas. Coming to the traditional services, we have a slightly different take on it, there is a lot of opportunity available for us to disrupt either the engagement models or contracting models or delivery models, service models in the traditional businesses, if you remember, we were amongst the earliest to have a platform based remote infrastructure management capability. So we will continue to do everything we can to disrupt and grow equally in focused way on the traditional services, because the way we see it is that customer needs a portfolio of services and that you need to retain the trusted advisor status with the customer you will need to perform equally well on both parts. Growth rates will change, in one year this may grow faster, in the next year that may grow faster, that is obviously a function of market opportunities, many things like that but we will focus on both but the angle of attack will be different. In the traditional services the focus will be to disrupt in some sort of innovative approach, In the digital services, play to our strength and deliver value to customers.

Moderator: Thank you. Our next question is from the line of Dipesh Mehta of SBI Cap Securities. Please go ahead.

Dipesh Mehta: I just want to understand about margin outlook, on the one side we are seeing digital is one of the key growth driver where we are expecting initial phase one side would be relatively higher and on the traditional side we are seeing pricing pressure and in addition to that we have some of the acquisition which currently operating get lower margin than company average. So if one wants to understand overall margin trajectory, considering all this factors maybe next four to six quarters, so how one should understand margin trajectory for the company? Thank you.

Jagannathan C. Narasimhan: In the beginning of this year itself we explained that we are going to invest on digital business and also we are building up the capabilities and also building up our facility. So these investments will pan over a period, what we are expecting is about eight to 10 quarters from last year end. So in this period the margins will have some impact, but what we see is after eight quarters the margins will improve much better driven by faster revenue growth.

Krishnakumar Natarajan: Dipesh, just to add to what Jagan said, there are two ways of looking at it. One is the short-term which is quarter four, what we had shared was that margins in quarter four will be better than quarter three without the acquisition which we announced today, because that is certainly at a lower margin profile. So if you look at what we have delivered in the consolidated margins of quarter three, quarter four on the same basis will be better. Now coming to a medium-term look like Jagan said, clearly we are right now in the planning cycle and maybe we will have a better feel in terms of what exactly are going to be investments which we need to make in FY17. What are the cost synergies which you can really drive on entities which have already been with us in the last two, three quarters and that will really decide what is really the target margin which we will aim for in FY17 and beyond. But just to give you a directional context on that, our goal is to continue to try and drive cost synergies in this acquisition because clearly we have already seen the first benefit or first result of that and that will hopefully sort of help us try and bridge the gap, but yes there is going to be always a gap between the Bluefin, Magnet 360 businesses and what the Mindtree margin profile is. There will be investments but overall we do think that the directional way in which we would like to go is continuously try and drive more synergy and take cost out of our acquired entities to bring the margin level closer to what Mindtree margin levels are.

Dipesh Mehta: Just to understand it clearly, whether we can say the current margin is where it is closer to lower end of what we are envisaging for next let's say six to eight quarter or temporarily it may blip further depending on the investment and other requirements?

Jagannathan C. Narasimhan: We do not give a guidance for margins, as indicated earlier also next quarter we are expecting to be better than quarter three but in the medium-term, means for the next four to five quarters we will definitely improve the margin but we do not want to put any numbers for this at present.

Dipesh Mehta: Last question is about, can you help us about vertical wise how we are seeing demand environment, what would be helpful. Thank you.

Krishnakumar Natarajan: See like you see this quarter clearly BFSI has grown by 4.1%, we clearly see price competitiveness in BFS particularly being fairly strong and Rostow rightly articulated our approach saying that today I think we have invested in our platforms to drive productivity and automation, so we will work in terms of how do we position ourself much more aggressively in that. So we anticipate that we will continue to have good funnel as well as traction in the BFS segment. Insurance, clearly the demand environment is looking very healthy. We are finding a lot of property casualty companies wanting to change to more what you could call real-time product environment, which means they look for packages and we have a great story and presence there. So we see the insurance industry being very strong. The retail CPG segment has had probably a soft quarter in Q3 primarily because of seasonality, but we certainly anticipate Q4 they will have a better quarter. Overall, FY17 is still early days but we are not seeing anything negative as far as the retail CPG group is concerned. Travel and hospitality, clearly we see particularly in digital a lot of investments and that again has reflected both in our deal wins as well as the strong growth we have had in quarter three. So we are certainly bullish about the demand environment in travel and hospitality. In technology, media and services we have had growth of 1.6% during quarter three. We are seeing that the technology media services are also looking positive while we had the years of probably flattish type of growth in the last two years, for the first year we will have a single-digit sort of growth in the technology media and services and looking at FY17 it is still early days but we are not getting any negative signals as far as technology, media and services are also concerned. So that is sort of a broad picture in terms of how each of our specific industry segments are looking like.

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

Manik Taneja: My question was more in terms of the acquisitions that you made, in the past also you guys indicated that there is a roadmap to improve the margin profile for the acquired entities, if you could give us some sense in terms of in what timeframe should we start looking at this expansion coming through? And the second question was more in terms of the revenue synergies from the acquisitions, if you could talk about some of the progress on the cross sell through the acquisition that we made in the past.

Krishnakumar Natarajan: See Manik, clearly these are still early days because even if you look at Bluefin, it is just two quarters within the system and out of that one quarter was clearly impacted by seasonality which is Q3 because just like we had holidays here, Christmas and year end always leads to a seasonality particularly in a consulting led business it tends to impact far more than what it is in the traditional business. But certainly I think in the next one or two quarters we will be able to share what is the progress we are doing on it. Early signs of revenue synergies are starting to look promising, but again it is just one win we have had, certainly the funnel looks pretty good in terms of synergies which have driven between the two companies, so we will certainly share more details of it probably in the April or certainly in the July results.

Manik Taneja: The second question was more in terms of you guys have shared a trajectory of moving back to a 17% - 18% EBIT level, could you give us some sense in terms of when should we start seeing some progression towards it?

Jagannathan C. Narasimhan: We will work towards improving the cost synergy and improving the margins of the acquired entities, but we do not expect their margin to come up to Mindtree level but it will definitely improve from the current level to maybe 13% - 14% ranges in the near future. Over a period of time when the cost synergies are fully taken into consideration our margin will go up.

So in the short-term or in the medium-term we expect their margin to be lesser than Mindtree but definitely improve based on our cost synergy plan.

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

Sandeep Muthangi: I had a question on the infrastructure services, this year we have heard some commentary from the larger players that the traction had been subdued in the first half and stuff like that, whereas it has been doing really great for Mindtree. I just wanted to understand what are the segments that are growing for you guys in infra services and going into next year is the demand on any cloud or any tool improving for you?

Rostow Ravanan: You are right, beginning of the year we actually announced that one of our European large client for whom the predominant service line was infrastructure management was declining, but the business has been able to grow, even to compensate to a certain extent for this decline. So to that extent it was predictable when you see the growth in the light of the fact that one large customer is actually declining. Overall we see I would see high excitement in the technology and media services vertical followed to a certain extent with retail CPG manufacturing and banking and financial services. Very sweet large win in the last I would say nine to 12 months from some of our new customers as well as new opportunities for the existing customers across different verticals, all of which sort of lead that business to do reasonably well in the early part of this year. Like you have rightly pointed out, there is a huge amount of change happening in the customer thought process on what do they keep in their own datacenters, what will they use third party providers for, this whole as a service kind of model for infrastructure of platform or application, many of those things are playing very strongly in our clients mind. So we see maybe in the next one to two years further sort of disruption happening in that segment, we are working quite hard to prepare ourselves for it, stay ahead of the curve and continue to grow the business.

Krishnakumar Natarajan: Sandeep just to add one specific to Rostow's comment, I think clearly we have gained significant capability in Azure as a cloud platform there both at the engineering and at the rollout implementation stage of Azure. we have also built capabilities on AWS space. So strong traction for the infrastructure services is coming in the area of cloud migration. You would also recollect that internally Mindtree built tool to manage private and public clouds which at the beginning of last year we spun off as an independent entity. So there is demand from clients on managing seamlessly between private and public cloud which helps us to really differentiate ourselves and the whole area of cloud, cloud migration, efficiency of the running environment within even public cloud like Azure or AWS is where we are seeing strong traction.

Sandeep Muthangi: One more question on the receivables and specifically on unbilled revenues, receivable DSOs seem to have normalized back to usual levels, but I am seeing kind of expansion in the unbilled revenue figure from say 9% of revenues to 14% - 15% of revenues so far this year. I was just trying to see what is the underlying trend that is driving this higher unbilled revenues, is there some of the digital projects are coming with longer success factors and stuff like that or is this just an anomaly that will correct itself over the course of next year?

Jagannathan C. Narasimhan: This unbilled is actually growing, it is in the revenue trend but last one year yes little bit has gone up, it is more an anomaly and it will get corrected in the near future. Maybe one or two quarters the customer towards the end of this year the clearing of orders, budget of the customers and all those numbers come into play also.

Krishnakumar Natarajan: Sandeep just one other factor which may be true to be honest, I think you need to analyze in detail, if you see we have constantly worked to increase our percentage of fixed price and fixed monthly revenue and typically fixed price tends to go on a milestone basis, so that could also be a thing but we will certainly analyze it. Again, I think just to point it out it is like certainly last quarter we did not do very well on capital generation, once we focus I think we can get it done, but I think this we just need to get into a little more detail. My guess is beyond what Jagan said it could also be linked to increase in the fixed price percentage range.

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

Mohit Jain: I am just trying to correlate here utilization, onsite ratio and realization increase.

Krishnakumar Natarajan: Come again Mohit, you said utilization?

Mohit Jain: Onsite offshore mix and pricing realization increases that you report on it, for example in this quarter volumes declined but revenues grew, so realization went up. So is utilization a lever in the next four six quarters that you are talking about in terms of margin increase? And second is, onsite ratio, are we now expect it to be stable at this level or do you think this ratio can further inch up?

Krishnakumar Natarajan: See let me try and answer that, just to give you context I think I would not take too much thing into the volume decline of 1.9% during this quarter because when we looked at our own number the incremental leave because of Q3 being a seasonal thing itself had impacted that volume by about, it would have actually been a +1.4 rather than being -1.9 because it is almost a 3.3% shrink just on the incremental leave which happened during Q3. So assuming if dip is at the same level as Q2 then the utilization will go up. Onsite ratio, we do anticipate with Magnet 360 it will probably inch up a bit because the nature of services which you do either in Magnet 360 or in Bluefin are very much onsite centric. Almost all the current acquired entities have a little more preponderance of onsite business, so we would see a few quarters when the onsite ratio will increase. But like Jagan or Rostow pointed out earlier in the call, clearly we have identified where is it that we can drive cost synergies, what are the type of services where we can move part of it offshore. In Bluefin we have already had the first one or two wins on that score, so we will try and accelerate that over the next few quarters.

Mohit Jain: Are you disclosing margins from Magnet 360?

Krishnakumar Natarajan: No. It is certainly lower than Mindtree.

Mohit Jain: And second thing is more on the industry side, I just noticed that within one year TCV signed the way you disclosed is sort of going up and in this quarter I was earlier hoping that it was because the digital business going up which is typically shorter duration. In this particular quarter digital in fact fell a little where the team time within one year TCV went up, so what is the nature of these projects?

Krishnakumar Natarajan: See clearly like we see there is a continuous sort of transition in terms of deals, like I shared even in digital we are seeing for the first time there has been a multi-year multi-million over a three-year period which is purely operations and support for a digital marketing initiative. So even in digital I think we will start seeing multi-year type of deals, our assessment of why the contracts and values has gone down is because being something which in the early stage of engagement is experimental, as clients reach the end of their budget they tend to sort of push that to the start of the new year when they have budget, so that certainly has impacted the seasonality has impacted closure of contracts or business in digital. We are right now seeing a very healthy funnel in digital so we do anticipate that the rate of growth will pick up as clients budgets start getting frozen.

Mohit Jain: And in terms of visibility does it impact your next visibility when you sign more of within one-year kind of deals?

Krishnakumar Natarajan: See I must tell you, I think we see the nature of how clients are engaging itself is changing while I think several years back clients used to give a good visibility in terms of what they are going to spend during the current year which could be taken on a calendar year basis. Increasingly, clients are more comfortable in terms of more clear clarity for two or three quarters. So I think the visibility is possibly getting impacted more by the nature of how clients are planning their spend rather than adoption of something which is new and how accelerated manner clients are getting to consume that.

Mohit Jain: And lastly, are you expecting any increase in tax rate for next year or should we assume it to be similar to FY16?

Jagannathan C. Narasimhan: Tax rate will remain similar Mohit.

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

Madhu Babu: Sir what are the typical deal sizes of Magnet 360, and do we intend to scale up this practice of cloud implementation?

Krishnakumar Natarajan: Madhu, we do not disclose the average deal size and to that extent I do not think for this though internally we have a number for ourselves I do not think we have that number. But we see the market being fairly substantive, like I shared earlier the market for sales force related services as estimated by IDC is about 135 billion in the next five years. Now with Magnet 360 and the critical mass which is there in Mindtree we certainly have strong capability in a multi-cloud sales force implementation as well as strong capability in the platform as a service which Salesforce offers with force.com. So we do anticipate that this will give us the additional impetus to grow at a rapid rate.

Madhu Babu: And one more thing sir, could you break up this digital I mean composition of 36% between frontend transformation and backend modernization and maybe some verticals like cloud, big data within those?

Krishnakumar Natarajan: We do not have that number Madhu, certainly we will start doing it, it is a good idea, I think we will certainly start tracking that.

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

Gaurav Rateria: Over time we have seen different set of vendors emerging for digital services who are taking a lead while incumbents continue to operate more on the traditional services side, do you think this first mover advantage will be for real or this can be replicated eventually by the larger companies given their deep pockets? And secondly, what do you think will be an inflection point for you on digital business and when would that happen?

Krishnakumar Natarajan: See again, Gaurav our assessment is that markets function in a fairly rational manner, so in any market which is rapidly growing first mover advantage is definitely a strong advantage, because I think you get into the minds and thinking process of the customer and if you have not done a bad job clearly the client stays with you because unless somebody is able to demonstrate a significantly different value proposition. So this is also the reason why I think we have clearly felt that this is a space where we have a first mover advantage, we need to move rapidly and if required acquire capabilities and significantly try and get the first mover advantage, and we think that advantage is real irrespective of size. And I do not think size is the differentiator at all because I think every opportunity of the client is unique and how you are able to really make a value proposition the client feels is unique and will help him in his business is what is going to differentiate people. So we do believe certainly yes we have a first mover advantage and we will work in terms of say how are we going to really strengthen it far more.

Gaurav Rateria: How do you characterize the margin profile within the digital business?

Krishnakumar Natarajan: See again, right now Gaurav it is a little bit difficult because I think there is certainly the early stage of the engagement, experimentation, sometimes proof of concept which you do execute primarily onsite where the margins could be much lower. I think the key aspect which you need to watch at some point in time which is starting or will start tracking is in areas where we think there is a certain level of maturity of the client, like distinctly we do believe next year we will start measuring what is the margins we are making in digital marketing. Because there we believe we already have clearly a strong set of marquee clients, we have reached a stage where we will be able to differentiate ourselves in a very credible manner and consequently see what is it that a steady state margin in a niche service like that will be able to deliver.

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

Sandeep Shah: Just one question broader level is, if you look at the nine months' dollar revenue growth it has been really handsome and one of the solid at 19% - 20% both lead by the organic, inorganic. However, if you look at the nine months EPS growth it has been just close to a double-digit, even if you look at the nine months operating free cash flow on organic basis it has been declining. So just want to understand what is the management strategy, where are we investing because if we look at on a YoY basis the number of sales people has not gone up. So what are the area of investment and what would be the strategy, is it that right now our first strategy is to get the growth ahead of the market and then try to recoup the margins and free cash flow in the following years?

Krishnakumar Natarajan: Sandeep I am not clear in terms of the second number which you said, while year-on-year dollars growth is good, you did say that growth on EPS basis?

Sandeep Shah: Yes, EPS basis if I look at the nine months EPS the growth is close to 10%.

Krishnakumar Natarajan: Yes, Sandeep again to be fair I think the EPS has to be viewed in the context that one, obviously like I shared in the earlier question that we clearly want to accelerate capability and customers in the digital space so we invested, clearly you would see that our other income significantly has fallen, so to that extent that has an impact on the EPS.

Sandeep Shah: Even Jagan I think if I look at the operating profit the growth is close to around 10%.

Krishnakumar Natarajan: Year-on-year you are saying?

Sandeep Shah: Yes.

Krishnakumar Natarajan: Yes, while the numbers I do not know in terms of the sales number, distinctly I think they have invested in creating a frontend sales team for the digital frontend subject matter experts for digital. So a significant part of our investments is going into creating customer facing people in the digital business because the execution there also needs to be much quicker in the early stages of the engagement. So there have been investments, maybe what I think we will do is some of these people may not have been really a part of what we indicate to sales people, so maybe we should start subject matter experts also who are all onsite. The third element in terms of things is, the entities which we have acquired which will help us address the whole digitization of the value chain also has a higher onsite ratio where the margins tend to be smaller which also certainly is an impact Jagan did share with you that we have very clear operating plan in terms of how will we drive cost synergies as well as ensure that we get them more balanced and up the margin profile of each of these acquired entities. And the third aspect in terms of margin which we took, which we shared in our quarter one result is, because we saw that we had a strong demand funnel in digital and a lot of that work needs to get done onsite, we consciously took a larger cost on our visas because we said that is not something which we can correct during the course of the year, we will have to wait till October 2016 if we miss the window. So that has also had an impact on the current year's volume.

Sandeep Shah: And that is what my follow-up question, with the visa fee increase and more business going on the onsite, any estimate how the visa cost on YoY may look in FY17 versus FY16?

Jagannathan C. Narasimhan: Sandeep, the visa cost, yes it is going up, the cost per visa is increasing for us, the onsite demand is also there but we do not see a substantial increase in our impact on this, this is a very marginal impact we have, we are expecting it to be very marginal.

Moderator: Thank you. Our next question is from the line of Ashish Chopra of Motilal Oswal Securities. Please go ahead.

Ashish Chopra: I had a question around traditional services, so you did sight in the beginning of the call about the pressure on pricing when it comes to renewal in traditional services. So just wanted to understand from you firstly the level of intensity as far as this pricing aggression goes that you are witnessing. And secondly, the readiness of the management or the approach of the management in that backdrop in terms of how would you be deciding on whether you would be matching that aggression or at what levels do you decide to just leave it on the table and let go?

Rostow Ravanan: Complex question Ashish, firstly I think the price pressure definitely is not unreasonable, I think like KK mentioned in one of the earlier responses it is a market place where most players are rational and Mindtree also behaves rational considering the fact that we have multiple stakeholders’ interest we need to keep in mind. So I do not think the price pressure is sort of unreasonable or anything like that, at this point of time our focus is been to say can I come up with a different answer to the same problem, can I lead through some platforms, can I lead through some differentiated services or even a different innovation from a business model or a contracting model point of view and we have been reasonably successful in many of those efforts. So that is the way we are approaching, how do we grow our business in the traditional segment. It is very-very important to us because from an account we are getting closer to the senior leadership in the customer and also to be seen as a trusted advisor and as a mutually significant partner to the customer. It is important for us to play equally strongly in the traditional services, we are continuing to do that both in terms of the investment and in terms of changes to the business model that we are driving.

Ashish Chopra: And just an associated question would be around the whole trend of vendor consolidation, so just wanted to understand from you as far as Mindtree's top clientele is concerned, so we already had one instance maybe with a large European telco last year but just generally would you witness that trend in any select vertical or in any select group of clients so to speak as of now?

Rostow Ravanan: So at this point of time, by and large we have had very exciting wins both in new customers in across I would say two or three different verticals as well as very exciting wins in some of our existing customers as well. So if I say for example our largest customer has grown quite well and also we have announced a lots of new wins from new customers also during the course of this quarter. So we are seeing reasonably sort of broad based growth. So therefore I will answer your question the other way around, that is one or two customers in some select segments are facing challenges and we probably will see some headwinds in a limited set of customers, other than that in the rest of the market we are seeing very-very interesting opportunities in front of us.

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

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

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.