



Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Fourth Quarter and Year ended March 31, 2016

April 18, 2016

Welcome to possible

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mindtree Limited Q4 & FY16 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sushanth Pai. Thank you and over to you, sir.

Susahanth Pai: Thanks, Karuna. Welcome to this Conference Call to Discuss the Financial Results for Mindtree for the Fourth Quarter and Year ended March 31, 2016. I am Sushanth from the Investor Relations team in Bangalore.

On this call we have with us Senior Management Team:

Krishnakumar Natarajan – Executive Chairman

Rostow Ramanan – CEO and Managing Director

Parthasarathy NS – Executive Director and COO

Jagannathan Chakravarthi – CFO

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

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

Rostow Ramanan: Thank you, Sushanth. Good Evening to all our friends in the investment community. A quick comment on the full year to start with and then I will cover highlights of the quarter as well. We had a great FY16. I am very happy to share that we have delivered industry leading growth of 22.5% in dollar terms and 26% in constant currency terms in FY16. Full year revenues were \$715.2 million. Even if we exclude the acquisitions that came into Mindtree during the course of the year, we delivered a growth of 15.4% in dollar terms and 18.6% in constant currency terms thereby comfortably exceeding the NASSCOM estimate of 10.3% for FY16. This is also the third consecutive year where we have exceeded 15% growth and consistently grown ahead

of the industry. This reiterates our strategy that our growth is not moderating and our growth in constant currency for this year is higher than the 16.4% growth that we delivered in FY'15.

We made great progress during the year on several fronts. Some key highlights that I would like to call out are the fact that all verticals achieved a double-digit growth in this year. Our penetration of existing clients has grown well and we have got one more client in the \$50 million category in this year taking the total in that category to two. Our Digital story and positioning has resonated well with clients and we have established ourselves as the preferred partner for Digital Transformation journey by our clients. The Digital business continues to grow faster than Mindtree's growth and has grown at 25.7% even without acquisitions. If you look at our acquisitions of Bluefin, Relational Solutions, and Magnet 360, these have helped us to be in the forefront of Digital and accelerate our Digital journey. We also saw some joint wins with the new entity. Along with this, our investments in Infrastructure to build a digital workforce and enhancing our front-end teams have shaped up well. All our traditional service lines including Application Development, Maintenance, Package Implementation, and Remote Infrastructure Management have posted double-digit growth. Trailing 12-month attrition as at March is a six-quarter low at 15.7%.

We had several multi-year multi-million dollar wins during the quarter along with strong contract closures. Total contracts signed during the year has been \$886 million in FY16 compared to \$646 million in FY15. Our strategy to deliver industry-leading growth would be through deep domain expertise in our chosen verticals combined with technology expertise. The leadership team is completely in sync with this approach and this creates a strong platform for us to focus on our clients, our people, and that will help us deliver superior results going forward.

Switching gears and looking at the highlights for the quarter:

For the quarter, consolidated revenues were at \$195.6 million, which is a growth of 6.1% quarter-over-quarter and 32.3% year-over-year. On a constant currency basis, revenue grew 7% quarter-after-quarter. Organic revenues which excludes Bluefin, Relational Solutions, and Magnet 360 are at \$178.3 million, which is a growth of 3% QoQ and 20.6% YoY. Constant currency basis, revenue grew 3.7% QoQ.

We had provided a mid-quarter update early in March. At that point of time, we saw challenges due to delays in commencement of some projects in our Retail and CPG as well as in our BFSI verticals. We had earlier in January announced that our organic growth of Mindtree for Q4 will be better than 3.4%; compared to that we have delivered 3% growth in this quarter.

The challenges that we outlined did not turn out to be as severe as what we were expecting and they were also offset by better-than-anticipated growth in a couple of verticals like Technology and Media Services as well as Travel and Hospitality. The verticals where we foresaw some challenges which were BFSI declined by 2.1% in Q4 and Retail, CPG, Manufacturing declined by 4.9% in this quarter.

Among geographies, US showed a good growth of 10.2%. Europe on a constant currency basis has grown by 2%, but due to impact of cross currency movements reported a decline of 1.6%.

Digital business excluding the acquisitions grew 3.7% quarter-after-quarter and 35.2% YoY. Including the acquisitions, the growth turned out to be 13.4% QoQ and 58.2% YoY. At the end of the year, we had 348 active customers and the increase is mainly contributed by the consolidation of the Magnet 360 financials into Mindtree.

We now have 101 \$1 million clients and our \$5 million client count has become 31, which is an increase of 2 from the previous quarter. Our \$10 million client count has also increased by 2 and now stands at 15. Our \$25 million client count has increased by 1 and is now 6 clients. Our top-10 clients declined marginally in the quarter mainly due to a decline in one of our Europe-based clients as explained earlier and also another client which used to be in the top-10 which has now split into two entities. This also validates our strategy to grow our next set of clients. In the quarter, our top-11-to-30 clients have grown by 6.7% QoQ. For the full year, Mindtree's 11-to-30 top clients have grown by 19%.

On the attrition front, trailing 12-month attrition reduced to 15.7% compared to 16% last quarter and 18.2% in the previous year. Quarterly annualized attrition is at 15.4%.

We ended the year with 16,623 people, which is a gross addition of 1,020 people in this quarter.

Some noteworthy wins during the quarter, all of which were multi-year multi-million dollar wins are as follows:

- An existing client, which is in the Personal Digital Media segment, Mindtree won an order to deliver Application Testing Services.
- For one of our clients, which is in the Business Support Solutions, Mindtree provides Software Product Engineering and Professional Services.
- A public services company in the UK, which used to be the customer of Bluefin, was our first win where we had joint solution from both the Mindtree piece as well as the Bluefin piece to this customer.

Coming to the outlook for FY17:

In FY16 in Q4 we signed new orders worth \$281 million, of which renewals were \$209 million and new orders were \$72 million. Out of this, orders which will be executed in one year or less will be \$247 million and the balance \$34 million is for greater than one year.

If you look at the order book that we won in a different perspective, of the \$281 million, approximately \$82 million of contracts were in the Digital business. We continue to have strong contract closures. We are seeing some price competition as well as some price compression for

renewals in traditional services; however, we are using these as opportunities to build great business value through disruptive business models.

The two verticals that I outlined before which exhibited some headwinds, which were Retail, CPG, Manufacturing and BFSI, continue to see a little bit of cloudy weather in front of them and I think it will take a couple of quarters before they stabilize. In that context, we believe that we will deliver high growth next year. Like I explained in the early part of this call, our annual growth rates have been ahead of 15% over the last three years and we believe we will look at some similar sort of growth trajectory in FY'17 as well. However, there could be swing on a quarterly basis.

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

Jagannathan Chakravarthi: Thank you, Rostow. Good Evening, Everyone. In Q4 our fee revenue grew by 6.3%, volume grew by 4.7%, and pricing realization increased by 1.6%. Excluding acquisitions, fee revenue grew by 3.2%, volume grew by 4.1%, and pricing realization declined by 0.9%. Q4 EBITDA margin excluding acquisitions are at 18.4% compared to 18.7% in Q3. We had an increase in operating costs having an EBITDA impact of 0.9%. This was offset by currency benefit of 0.6%. Including acquisitions, our EBITDA margins are at 17.1% compared to 17.7% in Q3. This is due to the lower margin profile of the acquired entities. Also, there is a long-term incentive provision of \$540,000 on account of Magnet 360 acquisition. Full-year EBITDA margin excluding acquisition at 18.5% compared to 19.9% in Financial Year '15. This is in line with what we have indicated earlier. Consolidated margins are at 17.7% due to lower margin profile of the acquired entities. Forex gain for Q4 was \$400,000 compared to \$1.4 million in Q3. The effective tax rate is 22.2% compared to 22.7% in Q3 and full year ETR is 22.4%. The PAT for the quarter is at 11.7% compared to 12.4% last quarter. EPS is at Rs.9.27, quarter-on-quarter growth of 3.3% and year-on-year growth of 21%. EPS for the full year is at Rs.35.89, increase of about 12.4%. Our DSO is at 74-days compared to 71-days last quarter. Our utilization including trainees is at 69.4% compared to 68.5% in Q3. Utilization excluding trainees is at 70.6% as compared to 69.9% last quarter. Hedges as at March 31st, we have a hedge of \$36 million at an average rate of Rs.68.52. These hedges are on a rolling three months basis and will expire in Q1. This includes hedges of Euro-INR of 3.25 million at 76.22 and GBP-INR hedge of 1.5 million at 99.4. Capex spend for the quarter was \$6.5 million. Full-year Capex is at \$23.4 million. Cash position is at \$62 million. EBITDA-to-operating cash flow was 49.1% and free cash flow is 30%. Return on capital employed for the quarter is 33.8% compared to 33.9% in Q3. For the full year, ROCE is 34.9%.

The Board of Directors at its meeting held on March 23, 2016 have declared an interim dividend of 20%, Rs.2 per equity share after bonus issue of par value of Rs.10 each for the quarter ended March 31, 2016. Further, the Board of Directors at its meeting held on April 18, 2016 have recommended a final dividend of 30%, Rs.3 per share after bonus issue of par value of Rs.10 for the year-ended March 31, 2016.

Some points on margin outlook for the next year. For Financial Year '17, we have only one cycle of salary revision for all Mindtree minds and it is effective from July 1, 2016. We plan to hire around 1,400 campus graduates in Financial Year '17. We expect Financial Year '17 visa costs to be lower compared to Financial Year '16. The impact in Financial Year '17 is expected to be around \$2 million compared to \$3.5 million spent in last year. There will be a long-term incentive payout of \$2.5 million in Financial Year '17 on account of acquisition affecting our margins. Overall Financial Year '17, we expect slight improvement in our EBITDA margin in spite of the lower margin profile of the acquired entity. This does not take into impact the currency fluctuation. Our Capex for Financial Year '17 is expected to be around \$22 million. ETR for Financial Year '17 would range between 22% to 23%. Thank you.

Rostow Ramanan:

With that, we now turn it over for Question-and-Answers.

Moderator:

Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have first question from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja:

Just wanted to get some sense in terms of what are we seeing with regards to demand within our top customers? Second thing is if you could talk in detail about the cross sell opportunities with some of the acquisitions that we made over the past 12-months, if you could talk about where are we in that context? The third question was with regards to our margin outlook. You have talked about an improvement in margins next year. If you could help us understand the different headwinds and the tailwinds driving that.

Rostow Ramanan:

This is Rostow, I will start and then my colleagues will also pitch in if they have additional points. Firstly, on the demand outlook, I think in some parts of our business, if I were to look at in different lenses, in fact, if you look at our US business, I think there is a strong traction we are seeing with many of our large clients whereas if I look at our European business, I think there is some lack of clear visibility if I were to look at it from a geography perspective. If I were to look at it from a vertical perspective, I would say Travel and Technology verticals generally present a more clearer picture whereas we see some amount of uncertainty in the BFSI and the Retail, CPG vertical. So, that is the way that we are seeing from the vertical perspective. If we see from the offerings, generally continue to see strong momentum on Digital like we announced earlier in the call, still seeing sort of strong client wins, project wins in Digital. So if I look at it from Digital, that looks well. Some of our other service lines like Infrastructure and Testing are also doing well. So, that is the picture that we are seeing from the service line perspective. So overall, I would say good traction when you look at it from some angle and some visibility challenges or some uncertainties from some other perspectives there. But in spite of all of those pros and cons, I think 2017 will continue to be a good year for Mindtree and we will maintain sort of similar growth rates like we have delivered in the last three or four years. So, overall, I think the positives outweigh the negatives in terms of FY'17 from a revenue growth perspective. The second question was cross sell opportunities. I am happy to report that all the three entities that we acquired in the last 12-months; Magnet 360 which is the most recent, Bluefin and RSI

which is older; all of whom we have had joint wins during the course of the year including some which are very recently early part of this financial year as well. So, we are beginning to see our revenue synergy kicking in and all of these were cases where the acquired entity services are being taken to Mindtree clients or Mindtree services to the acquired companies' clients. So, we are seeing two-way movement of offering our capabilities in servicing clients there. So I think we have definitely made good progress, but obviously it is very early; Magnet 360 is just three months old in the Mindtree system, Bluefin and RSI are about eight or nine months old. So more definitely needs to be done, but I think we have started the journey on a good note. Coming to the margin profile. Many positives are in our favor like overall growth, operational efficiency improvement programs like improving utilization, correcting the pyramid, many of those I think are the tailwinds we see for margin. The main headwinds are like Jagan mentioned, salary revisions which will come into effect in July, visa costs which will hit us in the first quarter, and the time taken to bring the acquired entities into the full operational efficiency synergy, etc., as well as the earn-out related payments which we will need to book for the acquired entities. So, those are the headwinds. In spite of the headwinds, for the full year we are attempting to show profit improvement or deliver profit improvement in FY17 compared to FY16. However, like Jagan mentioned, all of this is assuming currency remaining at current levels, any increase or decrease in currency will have its own impact.

Manik Taneja:

If you could help me out with a couple of book-keeping things, we have seen significant hiring in the last 12-months, if you could help us understand what proportion of that headcount or what absolute number of that headcount would have come in through the acquisitions? Also give us some sense in terms of what kind of a gross fresher hiring are we looking at in FY'17?

Rostow Ravanan:

Bluefin, Magnet 360, and RSI approximately brought us something like 550 employees. So it is relatively small in the overall context. For FY17, we would look at something in the region of 1,400 campus graduates.

Moderator:

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

Nitin Mohta:

My question was on margins. From a longer-term perspective, how should one think about it? Because even though we have had a fantastic revenue growth, profits have grown only about 12% odd this year. So while we have a plan in place for the next two to three years to grow above 15% mark, how should we think about that translating into profits?

Jagannathan Chakravarthi: In many calls we have mentioned that we are investing on Digital. We have mentioned earlier also that there will be an impact on our margin. That is the impact we have seen now. The investment in Digital will yield results in the coming days and we are expecting the margin to slightly be better than last year.

Rostow Ravanan:

Just to add to what Jagan mentioned, if you look at the last three or four years, our PAT growth has always been higher than our revenue growth. This is the first year in the last two or three years where our PAT growth is more than our revenue growth. The main reason for that to some

extent is the consolidation of the two businesses, both of which will probably add something like \$70 million, \$80 million to our revenue but come at a lower margin profile, along with the accounting-related charges for the acquisition which is the primary reason. Secondary reason was the investments we made in our front-end teams in Digital, creating solutions, etc., Therefore, going forward, we believe some of the investments we made in the organic Mindtree business will translate into higher growth rate and therefore the margin profile should improve. The acquired entities also the synergy should kick in and their margin profiles will also improve, both of which I would say are big positives. However, there are some negatives for FY17 as well. So, if you were to look at two or three-year kind of a perspective, I think stable to sort of maybe slightly improvement in margin is the kind of sort of picture we see for ourselves.

Nitin Mohta:

On the quarter gone by, I understand things turned out to be better as compared to how they were when you gave that mid-quarter update. Is pretty much all of that behind us or is there a possibility of any of that resurfacing back as we are looking at FY17?

Rostow Ravanan:

Like I mentioned in my earlier comments, I do believe that there could be swings on a quarter-to-quarter basis because like I said, one or two quarters are doing well, a couple of quarters are not, one or two verticals are doing well, one or two IGs are seeing a sort of more clouded picture. So there is likely to be swings on a quarter-to-quarter basis. As things stand, we expect the challenges in Retail as well as in BFSI should get sorted out in the first one or two quarters, which means we will probably see a little bit more back-ended growth in this year.

Moderator:

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

Sandeep Shah:

Rostow, wanted to understand the BFSI and the Retail issue. Because some of the results of the large cap peers which has come, it looks like that the growth momentum in the BFSI there continue to remain positive on the same as well as in the Retail some pockets they believe that the IT spend momentum continues to remain robust, so, is it more to do with one or two accounts which are large for us or is it spread across many accounts within these two verticals?

Rostow Ravanan:

Sandeep, great question. I think it is our picture and our view from our clients. These verticals themselves are about \$150 million to \$160 million for us. So it is obviously much smaller compared to the large companies there. But this is the picture we get from our clients and as of now, it is difficult for us to extrapolate and say that industry as a whole for all vendors doing badly or is it something specific to our clients. So, we do not have that picture at the moment. What we outlined is the view we are getting from our clients.

Sandeep Shah:

But is it restricted to a few clients of yours or is it more clients within the verticals?

Rostow Ravanan:

No, it is restricted to a few clients.

Sandeep Shah:

Jagan, when I look into the IFRS profit for the full year versus the Indian GAAP profit, this time the gap where the IFRS profit is lower by almost like 8.5% and if I look at more than 50% of

that gap has been accounted in the fourth quarter. So, can you help us understand the reconciliation here?

Jagannathan Chakravarthi: It was mainly because of we would have capitalized some portion of intangibles when the acquisition happened. That intangible, there will be an amortization applicable only for IFRS. These intangibles are not capitalized under IGAAP and hence it is not amortized in the IGAAP. Under the new Indian accounting standard when it is implemented, this will get streamlined between these two GAAPs.

Sandeep Shah: Just on the acquisition, if I am not wrong, all the three acquisitions this time I think we have consolidated for the full quarter when the acquisitions have been closed. So, how should we read this? Is it the convenient way of accounting or how is it? Because I think the Magnet 360 also been closed at the end of Feb., while looking at the notes to the accounts, the revenue being consolidated for whole of three months.

Jagannathan Chakravarthi: No, the agreement to acquire Magnet 360 was signed on January 18. So it is practically for the whole of the quarter although the post-acquisition conditions was closed by February end.

Sandeep Shah: So we continue to account on a proportionate basis rather than full quarter basis?

Rostow Ramanan: No, Magnet 360 was consolidated on a full quarter basis because it was done, like Jagan mentioned, within two weeks of the beginning of the quarter. So therefore from an accounting perspective consolidated for the full quarter. Similarly, when we did Bluefin or RSI, both were approved by the Board on 17th of July or 18th of July if I remember right, even those were consolidated for those respective quarters.

Sandeep Shah: On the visa side, can you repeat you said for the coming year we expect \$2 million cost while for the FY16 it was \$3.5 million?

Rostow Ramanan: That is correct.

Sandeep Shah: Whole of that will come in the Q1 of this financial year FY17?

Jagannathan Chakravarthi: Correct.

Sandeep Shah: How to read this? Because there is visa fees increase also and generally for us the Digital growth is leading to a higher onsite growth. So this time are we little conservative in terms of anticipating growth or this is like we have more stocks in terms of visa and that is why we are not investing?

Parthasarathy NS: Sandeep, this is Partha here. I think partly you have answered the question yourself. I think it is also because of the capacity that we already built-in in terms of past visas as well as there are certain cases where we will do local hiring. It is a combination of both because of which we applied for a lower number of visas this year.

- Rostow Ramanan:** Also, the team that is available to us through the entities like RSI and Magnet 360 being available to us, that also led us to a conclusion that we need lower number of people to be transferred from India.
- Sandeep Shah:** \$2.5 million is the cost related to acquisitions which will come in FY17. Can you repeat the nature of the same, what is it?
- Jagannathan Chakravarthi:** This is more on an employee related retention bonuses.
- Sandeep Shah:** Which will come in FY17?
- Jagannathan Chakravarthi:** FY17, correct.
- Sandeep Shah:** It is like earn-out payments kind of?
- Rostow Ramanan:** It is incentive payments to the employees in the acquired entities teams subject to business performance.
- Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum. Please go ahead.
- Madhu Babu:** First is 15% growth we are looking for the consolidated entity or is it just organic excluding Magnet 360 for FY17? Second is on offshore pricing. Can you talk about that? You have mentioned in your initial comments, but if you see this quarter almost a 4% drop is there in offshore realizations. Could you talk about the pricing outlook?
- Rostow Ramanan:** The next year's growth projection that we gave, we did not specifically say 15%, just to set the record straight. We said our previous three years we have always done a minimum of 15% and we think FY17 we are going to make sort of similar trajectory, etc., we did not specifically say a percentage of 15% or any higher or lower number. I do not want any misunderstanding. But whatever growth we show next year will be compared to the \$715 million of this year. So it will be full year all entities in FY17 compared to full year all entities in FY16. As far as our pricing goes, a little bit of it is one-off in terms of billing days and therefore realized days moving up or down etc., But as a theme, we do anticipate some amount of pricing pressure especially for the traditional services and for the renewal contracts.
- Madhu Babu:** We are saying that we will have a back-ended growth this year, if I heard it right, because traditionally our 1Q and 2Q are the strongest?
- Rostow Ramanan:** That is how it will ultimately come out. But it is because the challenges we see in two verticals, last year in Retail, CPG, Manufacturing and BFSI, it will take a quarter or two for us to work through those challenges and therefore Q1 and Q2, the good verticals will grow, but the challenge verticals will see some swing. But we expect that to stabilize, which therefore means Q3 and Q4 will be more, I would say, consistent kind of growth.

Moderator: Thank you. The next question is from the line of Sashi Bhushan from IDFC Securities. Please go ahead.

Sashi Bhushan: Sir, when we guided for the weaker quarter on account of client-specific challenge, did we have some insight toward the possibility of positive surprise from other verticals or was it a surprise towards the end of the quarter?

Rostow Ramanan: No, that is not the way we saw it. I think you should see this mid-quarter update in the context of the comment we made when we announced the Q3 results in January. We made a comment that the Mindtree organic business will grow faster in Q4 compared to what we grew in Q3. In Q3, the Mindtree organic business grew 3.4%. We thought we will do something better than that in January, but during the course of Q4 like I mentioned in a few clients, in a few verticals, there were some challenges and in reality Q4 delivered a 3% growth for the Mindtree organic piece. So, the mid-quarter update in that sense was factually correct. It was more an update against the picture we gave in January, but in retrospect like what happens always in business, a few things went well and a few things did not go as badly as we anticipated also.

Sashi Bhushan: In terms of client addition after consolidating our client base for almost 2-3-years, the client addition for this year has been really strong and some might be through acquisition. So, can you provide insight into the new client addition in terms of verticals and their profile and do you think that they have higher propensity to spend with you than the clients that we earlier weeded out or do you think there is a tail trimming of clients that needed that we got through acquisitions?

Rostow Ramanan: Sashi, I am a born optimist, I always assume that the clients that we have added have a huge potential to grow. Obviously, if we did not have that confidence, we would have probably stayed away from those businesses. So, we definitely think that the clients that we have added give us a lot of room to grow. The acquired entities typically have much smaller revenue per customer compared to the traditional Mindtree business because many of them are very specific, very niche kinds of offerings, and therefore they solve only a limited set of problems for customers. Obviously, the strategic fit will be to try and grow Mindtree revenue into the acquired entities as well as take the capability of the acquired entities to Mindtree customers. So, that is the fundamental approach that we have. Also, I would like to point out like I mentioned in the call, our clients outside the top-10, meaning our top-11 to top-30 customers have grown higher than the Mindtree average, which is also a function of our change in priority slightly in the sense that I think we have many things in place in a good shape for our top-10 clients that are taking the lessons learned in growing our top-10 clients and using that to grow our top-11 to 30-clients as well so that we have more broader based growth. But overall, I think the upsides of the new clients will definitely be more than the revenue loss from the trade pruning of the clients which are very small and do not have a great growth potential result.

Sashi Bhushan: Why consolidated PAT was much lower than the standalone PAT? Was there any M&A related expense of anything in this quarter?

- Rostow Ramanan:** Correct, the acquired entities by themselves have lower profitability like what Jagan and I explained and the acquired entities bore the cost of some of the accounting charges or acquisition-related charges. So that is why the consolidated PAT is marginally lower than the standalone PAT.
- Moderator:** Thank you. The next question is from the line of Aniket Pande, Karvy Stock Broking. Please go ahead.
- Aniket Pande:** How is Mindtree Digital offerings are different from other competitors and why Digital revenue is expected to grow more and how does Digital as percentage of total revenue is comparable against other players?
- Rostow Ramanan:** Aniket, I will answer the question probably in reverse order; our Digital percentage of revenue is mentioned in our 'fact sheet', approximately 40% of our revenues come from Digital, our fact sheet also clarifies what do we include in the definition of Digital and therefore probably it is a little bit more easier for you to compare with the rest of the numbers coming out from other players in the industry. We believe Digital is a strength area for us, we believe we are a company that was born Digital. So we've been chosen as the primary partner for many of our clients for their Digital Transformation journey. That's what has given us the good growth and we expect that similar growth momentum will continue over the next two or three years as well. We are seeing a lot of opportunities, which is why, for example, the Capex investments like acquisitions are growing to support our growth in this area. Our Digital offering and how they are different from market, to some extent, I guess like I mentioned before, definitions of Digital are different from different companies. From our perspective, things like helping our clients go closer to their customers, Personalization, e-Commerce, Cloud; some of these things are the areas where we classify as Digital. We have very specialized offerings within each of these areas for each of our verticals, for example, what personalization means to an airline will be very different than what personalization means to a retail company, which will be very different from what personalization means to a hotel, just as example. So, we would have very deep understanding of how these trends affect each of client – each of our clients in a chosen vertical and that is why clients choose us as their partners to help them both mitigate the threats caused by Digital as well as leverage the opportunities thrown out by Digital.
- Krishnakumar Natarajan:** Aniket, I will just add two points, this is Krishnakumar. When we look at differentiation, it is also important to look at how the numbers really represent the differentiation. So if you look at our average deal size of Digital, four quarters back it was about \$220,000 because typically Digital tends to be in small order value. That for FY16 the quarter which ended, that has grown to about \$300,000, which means during the year because we are becoming much more core to the Digital Transformation programs of clients, the average deal size has increased. The second key aspect is our win rate in Digital. When we look at last year's win rate it was about 22%, which means one in five opportunities we used to win. That win rate has become about 32%, which means practically every one in three opportunities which we compete we win which itself

is a reflection of how customers and prospects see how differentiated Mindtree is in the Digital offerings.

Aniket Pande: Last quarter you had acquired this company called Magnet 360, which is a Salesforce Platinum consultant and partner. Sir, can I know the market size of Salesforce in US?

Rostow Ramanan: Market size of Salesforce in US is very large, Salesforce is already a multi-billion dollar company growing at upwards of 35-40% p.a. So it's a very large market opportunity. On Salesforce licensing revenue, if you look at the implementation or Consulting services against Salesforce, it's in the tens of billions of dollars.

Moderator: Thank you. The next question is from the line of Ankur Arora from IDFC Mutual Fund. Please go ahead.

Ankur Arora: A couple of quick points I wanted to understand; one is about the acquisition of Magnet 360. You said you have consolidated the number for full quarter basis even though, your transaction was completed on 19th January?

Rostow Ramanan: That's correct, but we consolidated from 1st of January.

Ankur Arora: Should it not be consolidated from 19th January, it can't be done from 1st January, right?

Jagannathan Chakravarthi: In accounting terminology it is called 'Consolidation for Convenience'. If it is a very less period left out in a quarter, we can consolidate from the beginning of the quarter, it is allowed as per the accounting literature.

Ankur Arora: So can you quantify what is the number you have consolidated in this quarter?

Jagannathan Chakravarthi: The total revenue impact is around \$6.2 million for Magnet because 18-days may not have much of an impact on this.

Ankur Arora: Secondly, the acquisition price, I mean, last quarter when the transaction happened, you mentioned was \$50 million transaction and \$37 million upfront and \$13 million as a pay-off in the span of next two years. Right now in this press release you have mentioned \$37 million upfront and around \$8.9 million-odd. So how does the \$4 million reduction happen?

Jagannathan Chakravarthi: The balance amount is actually a retention bonus for the employees based on the future business.

Rostow Ramanan: So, part of the future payment gets reflected in our P&L as year-over-year expenses in our employee cost and part of it is earn-outs that get paid to the selling shareholders of Magnet 360.

Ankur Arora: So, around \$8.5 million to \$9 million if ever the transaction is consummated as per plans will be paid out to the shareholders so that will get capitalized or rather that will be in the balance sheet and \$4.5 million to \$5 million will be shown as part of P&L. Am I right in understanding?

Jagannathan Chakravarthi: Yes, you are right.

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

Sagar Rastogi: You have said that technology has been growing strongly for you and you have said that the picture here is also fairly clearer than the other verticals. Could you one, give us some color on what is driving growth here? Secondly, my understanding was that in this particular segment visibility is actually quite poor because it's project based kind of work, but you don't seem to have that problem, is my understanding wrong? It would be great if you can help.

Rostow Ramanan: I think the picture we are seeing from our Technology, Media and Services clients is by and large being fairly optimistic. That vertical had lots of challenges historically, but last FY15 over FY14 was a small growth of 4% or 5% and FY16 over FY15 has been a double-digit growth. So some amount of stabilization, some amount of deeper momentum with a few of our large clients in the segment have been what led us to good growth so far last I would say five or six quarters in the Technology and Media Services vertical. Coming to the future outlook as well as our Services, it's a combination of the fact that we now are embedded into larger and more critical multi-year kind of programs, whether it's Engineering or traditional services like Testing, efforts like that, as well as the focus effort we put in two or three years back to penetrate other services into our Technology clients including, for example, Digital or Package Solutions or Remote Infrastructure Management, etc., So it is deeper penetration of newer services have also given us some amount of stability and the fact that many of our clients are doing well, their businesses are doing well, they are seeing a lot of momentum because of technology shifts, etc., and it gives us the confidence that even over the next three or four quarters that vertical will do well. However, like I said before, we do see some verticals doing well, some verticals not doing well in the early part of this quarter, which is why on a full year basis Mindtree will grow well, but there will be swings on a quarter-to-quarter basis.

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

Sandeep Muthangi: I had a couple of questions; first one is on the better traction that you've seen in some of these verticals in the quarter. Rostow, what do you attribute this to? Is the read through that some of these Digital engagements the project starts are happening sooner than expected or is it that you guys have closed the deals really well and it's all because of deals closing early?

Rostow Ramanan: I think it's a little bit of both and a few other factors as well. I think clearly like I outlined, Sandeep, this quarter had very strong deal wins both in Digital as well as in the traditional services. So that clearly led to some amount of growth momentum, as well as some earlier wins that we had in Q2 or Q3 which are now ramping up and that also gave us good momentum in Q4.

Sandeep Muthangi: On the margin side, when you gave that mid-quarter update, one of the reasons mentioned was slightly weaker revenue growth impacting your utilizations and other stuff as being a margin headwind, but clearly that didn't happen, utilizations improved, revenue growth was pretty robust, etc., but still the margins declined 50 bps, 60 bps in the quarter. I just wanted to see what do you think of the negative surprises that would have happened in the March month? Is it that pricing wasn't much higher than what you guys expected and is there anything to worry with respect to that?

Rostow Ravanan: I think there are two different angles, in a sense like I mentioned, Sandeep, we are seeing some amount of intense competition on pricing especially for the traditional services when it comes for renewal, but I don't think that by itself played a big role in the update that we gave in March, that was more a function of the fact that like I said we made an explicit comment that Q4 will be better than Q3, in reality it was not and therefore we felt it is prudent or good governance to come and update the investment community as quickly as possible. So, this is as far as the quarter update itself went. The margin issue predominantly was because we had the acquired entities; Bluefin, Magnet 360, etc., operating at a lower margin and there were specific one-off kind of cost items that had to be absorbed with respect to the acquired entities like earn-outs or employee retention payments etc., So, those were the reasons why Q4 margin was marginally lower than Q3.

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

Ashish Chopra: I had a question around the overall strategy. So the last 4-5-quarters have been fairly active in terms of the acquisitions for Mindtree, four-odd acquisitions. So going forward just wanted to know in terms of the overall portfolio, do you believe that you would need to keep up this rate - the aggression that you have shown thus far and also given where the cash balance lies at the moment, how would the management be thinking about leveraging the balance sheet in order to acquire the necessary entities?

Rostow Ravanan: Our current working assumption is that we will use FY17 to consolidate the acquisitions that we have made recently, make sure that we realize the full synergy potential that exist in the business, and therefore deliver some improvement in margin, faster growth rate and things like that. As things stand today, the preference will probably be to go slow on acquisitions for FY'17, but it's one of those things where you can't take a cast in concrete approach so early in the year. If we do come across something that's really interesting or that makes a great strategic fit, then obviously we'll have to plan for it accordingly and the planning will include everything including resource mobilization, borrowing cash or how we are going to pay them, how we look at different structures, and so on and so forth. It's not something that we have a view on at this moment.

Ashish Chopra: My second question was actually as a follow-up to the previous question around the Technology segment. So obviously, you have a good chunk of the revenue over there from your top account

and which has also been growing very-very significantly. So just wanted to understand in terms of the visibility that you spoke about for the next year, so would the visibility in the top account be a major factor driving that confidence or also in the other accounts outside of that there is a healthy order book that is giving you good visibility on the segment overall?

Rostow Ravanan: I think there's good visibility overall in many of our large clients. The only issue is in some cases the visibility is positive, in some cases the visibility is negative, meaning that customers have indicated that they are witnessing some pressure and therefore there will either be delayed decision making or change in their strategy, which therefore means some projects may not come through and so on and so forth. But overall I would say there is high visibility in all our large clients. I would say if you look at our top-30 clients, there's good understanding of their priorities, etc., however, not all of them are either positive or negative, it's there would not be a mixed picture.

Ashish Chopra: Just one small clarification that I needed; the other segment that you have in the industry contains revenues only from Bluefin and Magnet 360 or would there be small components of anything else as well?

Rostow Ravanan: There are one or two of our historic clients as well.

Ashish Chopra: Which would not fall in any of the other verticals?

Rostow Ravanan: Exactly, the bigger chunk obviously is Bluefin and Magnet 360, which joined the Mindtree family during the course of this year, that's the biggest chunk, but it would have one or two of our clients who we've had in the past which wouldn't fall into our four verticals.

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

Gaurav Rateria: Two questions; firstly, on the total orders won in FY'16 obviously it grew pretty strongly at 37%. Do you think some part of the deals won which got reported in the \$886 million also got impacted because of delays in decision-making by clients in one or two verticals and what percentage of those total orders would be which would have got impacted?

Rostow Ravanan: I think what we have announced as wins, those got closed, and it's difficult to now reverse engineer to say did those close on schedule or did they get delayed, etc., I think we don't have that information right now, but what has closed has closed. The delay in decision-making or some headwinds that we see are for the opportunities in the pipeline as of now.

Gaurav Rateria: So the existing business, which you would have already closed the deals, there is no issue in that, it's only with respect to the pipeline and the new deals which you are pursuing right now?

Rostow Ravanan: Not in a very material way, but obviously within what we closed also; some are ramping up on schedule, some are ramping up slightly under schedule, some are ramping up slightly lower

schedule, but those I think are relatively sort of normal for somebody in our size and for this time of the year, etc., So, there's nothing sort of materially to change the view on what we've already signed. One definite positive is that there have been no order cancellations so far. The delay in decision-making or whatever challenges that we mentioned are more for opportunities in the pipeline.

Gaurav Rateria:

On the Digital Services, KK had earlier talked about different stages, stage one is prototyping and the final stage will be of full-fledged rollout and implementation. So, could you help us understand the overall lifecycle from stage one to the final stage, how much time it takes, and where we are right now in the investment cycle for the Digital Services. Are we towards the end of it and most of the investments are behind us or do you think we can see a lot of investments coming in the coming year as well?

Rostow Ramanan:

So, the project lifecycle goes through all the points that you mentioned including I would say one step after that where the Digital solutions needs to be integrated to the core back-end system - ERP. So it goes through conceptualization, design, maybe two or three different proof-of-concepts, then a final technology choice, then an implementation, in a way sort of like a point solution for the specific problem and then the integration with the back-end. So it becomes more like business as usual thereafter. So, those are the lifecycle that the Digital project goes through. I think the investments in Digital would be an ongoing journey because it's also an area where there's so much of rapid innovation, new technology, new tools, new business ideas coming, and new opportunities that Mindtree is also co-creating along with customers. So, I think there will be a phase of continuous investment to maintain our leadership, to maintain our strong growth rate. However, we think the quantum will taper off. We have sort of somewhere we made like a steep climbs, I think the quantum of investment for the future will taper off.

Krishnakumar Natarajan:

Gaurav, just to add one more point. I think the way to look at it is not in terms of our client in terms of where they are on the maturity cycle in the Digital Transformation process, but on the specific initiative, because we are working with a few clients where one initiative where we have been working with them for the last two years has really reached like Rostow says, stage four which is to integrate with their back-end where the deal size is also larger. So, in a way that was also the early initiative. So it probably takes anywhere from 18 to 24-months to reach stage four. But there are two other initiatives which one could be in stage one and one could be in stage two. So, it's very important to look at specific initiatives of the customer, where is it they're on the maturity cycle with respect to each one of those initiatives.

Gaurav Rateria:

But the margin improvement for next year, is it also coming because the Digital business is going to be more profitable than earlier?

Rostow Ramanan:

Even now Digital business continues to be fairly profitable. So our profitability challenge is less on digital, it's more like I said to some extent the acquired entities which are very onsite-oriented, very high cost base, and relatively small revenues compared to the cost base, etc., So, the challenge is more on some of the newer services that get to Mindtree as part of the acquisition.

Digital per se is quite profitable. Many operational improvement levers are available including utilization, pyramid correction, etc., so in a way, that's how we see overall margin improvement for next year.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I would now like to hand over the floor back to the management for their closing comments. Over to you, sir.

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

Moderator: Thank you very much, sir. Ladies and Gentlemen, with this we conclude today's conference call. Thank you for joining us and you may now disconnect your lines.