



## Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Second Quarter ended September 30, 2017

October 25, 2017

*Welcome to possible*

**Moderator:** Ladies and gentlemen, good day and welcome to the Mindtree Limited Q2 FY18 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing \* then 0 on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sushanth Pai. Thank you and over to you, sir.

**Sushanth Pai:** Thanks Zaid. Welcome to this conference call to discuss the financial results for Mindtree for the second quarter ended September 30, 2017. I am Sushanth, Head of Investor Relations. On this call we have with us the senior management team,

Rostow Ramanan – CEO and Managing Director

Parthasarathy N.S. – Executive Vice Chairman 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 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, request you to please disconnect as we just concluded the media briefing before this call.

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

I'll now pass it on to Rostow.

**Rostow Ramanan:** Thank you, Sushanth. Good evening to all our friends in the financial community. Before I begin my update for the quarter, I want to share a few other key highlights with all of you. Firstly, we have received all the necessary regulatory approvals for the merger of Bluefin into Mindtree. Consequently, the reported financials for the quarter on a standalone basis and prior period numbers have been restated accordingly. We also successfully concluded our first share buyback program. We have received approximately 32 million shares in tender against our offer to buy 4.22 million shares. So the buyback was fairly successful. The buyback was completed on a proportionate basis, as for the prevailing regulations at a price of Rs. 625 per share. Aggregate consideration that Mindtree paid out for shareholders in this quarter was Rs. 2.6 billion. Going forward, we will keep buybacks as an additional method to return capital back to shareholders as part of our future capital allocation strategy.

With that, coming to our results for quarter two. Our revenues in quarter two were US \$206.2 million, which represents a Q-o-Q growth of 3%, and a 6.9% growth Y-o-Y. On a constant currency basis, we grew 2.1%. If we exclude the businesses that we acquired over the last two years, the organic Mindtree growth was 3.5% Q-o-Q and 8.7% Y-o-Y. Amongst vertical, all vertical showed good momentum and growth. Travel and Hospitality grew 4.4%; Retail, CPG & Manufacturing grew 3.9%; Technology, Media & Services grew 2.8%; and BFSI grew 2%. When you take the geographical view, the US was largely flat, mainly because of a decline in the business in Magnet 360. Europe grew by 11.4%, of which the organic Mindtree growth in Europe was about 9% and the growth in Bluefin contributed 2.4%.

On a standalone basis, the Bluefin business had a stellar growth of 22%, which is a reflection of all the effort that we have put in over the last few quarters to try and stabilize and to bring that business back to our growth mode, and also the issues that we had in the previous quarter with project in one of our large customers in Bluefin is also coming to stability, all of which led to good performance by Bluefin in this quarter. We are also proud to announce that our digital business grew 3.6% quarter-over-quarter and 13.8% year-over-year. If we look at our traditional service line, they also have performed really well. Our remote infrastructure management business grew 6.6% Q-o-Q. At the quarter end, we had 327 active customers and added 24 new clients in quarter two. Happy to report that our \$5 million clients count has grown by 5 taking that count to 38. Also very happy to report from our people perspective, our trailing 12-month attrition has further reduced to 13% in this quarter compared to 14% in the previous quarter. Quarterly annualized attrition is at 12% compared to 13.4% in the previous quarter. In this quarter, we have a gross addition of 856 people, of which 429 were campus engineers, who joined us in this quarter.

We also had some very strong multi-year multi-million dollar wins and some of them are providing managed infrastructure, DevOps and cloud operations for a large technology company, providing engineering services to our business unit of large telecommunications company, providing testing services for an iconic US airlines, providing cloud migration services for a very large hospitality company in the US, providing sales force solution to enhance rider engagement for a globally iconic motorcycle brand. This is a joint win along with our subsidiary Magnet 360.

Lastly, assisting a FTSE 20 company, which is also a long-standing client of Bluefin in one of their business critical financial integration project which also leverages our global delivery model. This shows our efforts to leverage and cross sell either services into each other's clients and also to leverage the global delivery model along with our high consulting businesses like Magnet and Bluefin are yielding results.

Coming to the outlook. In this quarter, we signed deals worth \$207 million, of which renewals were \$130 million and new contracts were \$77 million. Contracts valued at less than one year, valid for less than one year were \$166 million and greater than one year were \$41 million. Contracts in digital this quarter was \$84 million. Overall, pipeline continues to be very strong

and have increased by more than 20% in the previous quarter. Pipeline for digital also continues to be strong and has increased by more than 30% compared to the previous quarter. One of the large deals we announced last financial year has ramped up significantly and has already become one of our top 10 clients. This is a testimony to the fact that our customer relationships beyond the top 10 have yielded better results as we are making inroads into their strategic IT spend areas. We're also seeing better stability with some of our top 10 clients.

Like I announced in the deal wins segment, we are beginning to see more opportunities to cross-sell along with our group entities of Magnet and Bluefin and we are making steady progress, whether it is on the integration, delivery excellence, harmonizing sale strategy and sales approach and focus on larger deal sizes. For example, we are able to turnaround one of the projects in Bluefin, which was affected last quarter and had a cost overrun. But given the nature of this more high consulting oriented nature of the business, we do believe that quarter-to-quarter volatility may still continue for a little bit more time. With this in mind, on an consolidated basis, we expect the current growth momentum to continue and we are retaining our communication we made at the end of the previous quarter that we are targeting high single-digit growth on a consolidated basis.

With that, I pass it on to my colleague Jagan to share some other financial highlights.

**Jagannathan C N:**

Thank you, Rostow. Good evening all. In Q2, our revenue grew by 3% aided by volume growth of 1.8% and pricing realization increase of 1.2%. The cost currency impact was about 0.9%. With the Forex impact taken away, the revenue grew by 2.1% on constant currency basis aided by volume growth of 1.8% and price realization increase of 0.3%. Our consolidated EBITDA margins are at 11.6% compared to 11.1% in Q1. The headwinds for the quarter were one-time people restructuring cost of \$1.9 million. This was one of our large European client, which has been in decline for the last couple of quarters, couple of years, due to the business challenges. This is non Bluefin account. This resulted in 100 basis point margin impact. There was also salary increment which had a margin impact of 130 basis points, buyback related cost had a margin impact of 20 basis points. This was offset by tailwinds as follows: Operational improvement of 120 basis points; absence of visa cost of 130 basis points; and currency benefit of 50 basis points. Without Bluefin and Magnet 360, our EBITDA margin stands at 13.8% compared to 13.3% in Q1. Excluding the one-time restructuring costs, our EBITDA margin at consolidated level would have been 12.6% compared to reported number of 11.6%. For the quarter, the PAT percentage was 9.4%, with the EPS of Rs. 7.44, which is a quarter-on-quarter growth of 3% and 32% year-on-year growth. The board of directors at its meeting held on October 25th 2017 has recommended an interim dividend of 20%, Rs. 2 per equity share and a special dividend of 20%, Rs. 2 per equity share on completion of 10-years of initial public offerings.

Some points on margin outlook. For Q3, we will have our second round of salary increment, which will impact the margin by 50 basis points. We will also have 500 campus minds joining us in Q3. Q2 has given us a good headstart in our journey to improve margins, operational

efficiency and cost control measures have clearly started to yield positive results. We will continue this path as we enter Q3 and Q4.

With this, I conclude my update. Handing over back to Sushanth.

**Sushanth Pai:** Thanks, Jagan. Zaid, we can now open the floor for Q&A.

**Moderator:** Sure, sir. Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

**Madhu Babu:** Sir, are we seeing good acceleration going into 3Q and 4Q on the growth rate? Because to achieve around high single-digit, we require around 4% - 4.5% kind of CQGR for next two quarters?

**Rostow Ravanan:** I am not commenting on specific numbers because we don't give any guidance on either quarterly or a full year basis formally. All I can share with you is that like you have seen over the last 2-3 quarters, our deal wins continue to be strong. So we are very confident on our growth momentum.

**Madhu Babu:** Okay. And what is the constant currency growth for this quarter, sir?

**Jagannathan C N:** 2.1%.

**Madhu Babu:** Okay. And just one last one from my side. The margins we are seeing, the adjusted margin after adjusting for the one-time cost is around 12.6%. So for next quarter, can we see a marginal improvement on this base for 3Q?

**Rostow Ravanan:** Overall, like we explained, Madhu, beginning to see all the results of our growth as well as all our cost control initiatives helping us in our marginal improvement initiatives, so yes, we do expect some margin improvement over the reported numbers of this quarter. Again, next quarter, there we will be something that will be better, something that will be worse, etc. but when you look at the reported profitability of this quarter, we expect some improvement next quarter.

**Madhu Babu:** Okay, sir. And the strong traction in the top account, I think, what is driving that continuous growth in that account? It has been phenomenal over the last couple of quarters?

**Rostow Ravanan:** In a nutshell, I would say, a great delivery and great relationship management.

**Moderator:** Thank you. The next question is from Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad:** I had a question on the digital part of the business, while optically it may look like a slight deceleration, just interested in your thoughts in terms of deal sizes how that is trending?

**Rostow Ravanan:** So, I would say, there are three ways to answer your question. Over all, I think it is definitely a big benefit for Mindtree, because more than one customer, both existing customers and new customers are beginning to see Mindtree more favorably for both the traditional services as well as digital. And we are being able to participate and win both larger and more complex deals. Within digital, we are beginning to see medium deal sizes becoming much higher compared to the past. For example, if you look at digital, same quarter last year, we won \$64 million worth of deals, and this quarter we won \$84 million worth of deals and some of these are also like I mentioned in our initial briefing are also multi-year, multi-million dollar kind of deals. Even on the traditional service lines, we are being able to win larger opportunities there. So overall pipeline is 23% growth over the previous quarter and deal sizes are also becoming much larger compared to our historic run rate. So we are very pleased with the evolution in the marketplace and the customer perception of Mindtree and there is also a reflection of all the efforts we have put in.

**Apurva Prasad:** Great. That's very helpful. And also want to understand on the pricing side, we saw an uptick. So what would that be attributed to?

**Rostow Ravanan:** Like I said, little bit of it is a reflection of the increasing percentage of our fixed price kind of engagement. And when you deliver them successfully, that led to some amount of pricing realization improvement there. From an external market perspective, I don't think contract rates are either moving up or moving down. I would categorize them as largely stable.

**Moderator:** Thank you. The next question is from Rahul Jain from Emkay Global. Please go ahead.

**Rahul Jain:** My question is on this TCV data that we shared. There are two data, one is the absolute total, and then there is one which is expiring within one year. If I look the growth on a trailing 12 month basis on this data, the total TCV looks like 12% up, but the one that is expiring in one year looks like 1% down on a 12 month basis. So can we say that as you said that in the pipeline there is lot of pipeline deal sizes are multi-year, multimillion, but given that spread of it, most of this may be beneficially beyond a year and near-term growth may not be that exciting based on the current win that we have in the pocket?

**Rostow Ravanan:** I'm not sure if that's the only way to look at it, Rahul. If you look at deals expiring within one year, same quarter last year was \$152 million and this quarter was \$156 million. And if you look at overall same quarter last year we won \$183 million worth of deals and this quarter we won \$207 million worth of deals. So on a Y-o-Y basis both at an aggregate level and also at less than one-year level, it is continuing to grow. If you see between last quarter and this quarter, some of this has gone up and something has come down, but that I would attribute to the fact that what got closed in one quarter is not necessarily a reflection of only activities in that quarter, sometimes some deals take a little bit longer to close, sometimes some deals closed a little bit faster. So, I wouldn't overly sort of interpret anything between the Q1 to Q2 numbers, I would say that Y-o-Y comparison is a little bit more relevant in the current industry context and also in the current Mindtree context.

**Rahul Jain:** Right. So, exactly. So, my question was more on the trailing 12 month basis, because I think that neutralized the quarterly factors which you just highlighted that some can spillover into the other quarter basically the trailing four quarter data if I do and do a Y-o-Y on that, that suggests that one year expiring is just 1% negative versus 12% growth in the total data. So, total definitely brings visibility to the longer-term thing, but near term some of these deal may not fructify leading to softer growth from next 12 month perspective.

**Sushanth Pai:** This also shows that we are looking rather we are seeing more multi-year deals and multi-year wins. So that is also improving the longevity of the contracts. So that is the way to see it. So if there is a small decline in the near term, I don't think there is a cause of concern as such.

**Rahul Jain:** Okay, got it. Secondly, I missed the overall thought on Bluefin if you could construct completely where we are and what all issue still remains there or we think except for that consulting nature of the business, rest everything are now as what we thought when we acquired the business?

**Rostow Ravanan:** Sorry, Rahul. I'm not sure if I got your question correctly. Can you repeat it once again, please?

**Rahul Jain:** So putting it simple, what is the situation at Bluefin right now versus where it went down? And is it now reached a level where we acquired few quarters back?

**Rostow Ravanan:** So the business is still trending lower on revenue compared to the time we bought that business, because like I said it has 4-5 quarters of challenges. Therefore, I don't have enough to confidently say that the future is looking better or anything this way. However, I am beginning to feel a little bit more confident that the market issues are under control, operational issues are reaching stability, but I would say there is still more work to be done both on Magnet and Bluefin before we can very confidently predict any outcomes on both of them.

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

**Vishal Desai:** Just quickly wanted to get your sense in terms of two things going into Q3 and Q4, which tends to be seasonally weak in terms of on the furloughs and the holidays. Could you paint us a picture in terms of what is the kind of outlook that you are seeing in terms of the overall verticals in terms of BFSI, retail and manufacturing, please?

**Rostow Ravanan:** Overall, I would say at an individual vertical level, BFSI was really badly affected by one of our large customers, it used to be a top-five customer for Mindtree that had a really severe growth challenges in FY 2017. Some of those I think are stabilizing. I mean that particular customer is not recovering in anyway, but our issues with that account sort of coming under control and some of the newer wins are beginning to ramp up, including some of our recent wins over both last year and this year have been in the BFSI segment. So, I think we have passed the bottom and beginning to see recovery in BFSI, but a little bit of all of that comment you should assume is client specific with respect to Mindtree. At our side I am not able to confidently say, these are

the larger reflection of the global BFSI environment or not right now, given the constitution of our business, if more client-specific issues that affect us at this moment. For the rest of the verticals we see travel and retail, CPG manufacturing and huge opportunities in Magnet, both of them have huge opportunities in digital, both of them have been early experimental digital almost 2-3 years back and now beginning to get the benefits of all the investments we make. So many of them are not trying to do a lot more to get closer to get customers. So we are involved in more of the revenue increase kind of IT projects within these two segments and that continues to be a big growth opportunity for Mindtree. Technology, media and services, I would say, is a little bit more neutral sometimes doing really well, sometimes going through some challenges there. So I would categorize as technology, media and services is relatively more sort of stable, neutral kind of a picture.

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

**Ashish Chopra:** Rostow, just to be certain and clear on the outlook for growth that you mentioned, so are we seeing that the visibility in the second half on the revenue front is good enough that you will be able to really shun the seasonality impact that we have usually seen as a result of furloughs and be able to grow at a very healthy rate.

**Rostow Ravanan:** So, the way to look at it, Ashish, is that the seasonality is the seasonality. So customers will impose furloughs, the billing days will be different in Q3 compared to Q2 etc. However, what we are projecting today is the fact that our deal wins etc. have been so strong, pipeline continues to be strong etc. So, therefore on the revenue front we believe that the picture we sort of saw at the end of the last quarter that we will have a high single digit growth for this year. So that continues to sort of hold even as of today. So, the pros and cons are both being factored in. Keeping the same sort of trend even on the bottom line, which is also being one of the biggest concerns from our investment community point of view and it is also an area where we have put a lot of effort which is also beginning to see an increasing trend. So Q3 and the rest of this year should also see some improvements on profitability. So both revenue and profitability improvements, we are very, very confident that we will be able to drive those.

**Ashish Chopra:** Right. And I just had a second question on the subsidiaries. So wanted to understand that for Magnet 360 this was the second consecutive quarter of revenue decline. While I guess the sales force ecosystem generally, we assume to be growing pretty well. So, I mean what is really happening over there and what are the challenges that you are facing because Bluefin clearly we understood had challenges, but a little more color on Magnet 360 would help. And secondly, if any of these two subsidiaries currently have broken even in terms of EBITDA?

**Rostow Ravanan:** So, Bluefin is positive on EBITDA, so just like I said, some good revenue momentum is all that is required to bring those entities into profitability. So Bluefin is already an EBITDA positive. Coming to Magnet, we have to see it in two perspectives. What has ended up happening over the last 3 or 4 quarters is that there is more growth out of using Magnet 360 expertise for sales



force in Mindtree customers. So our sales force practice at an aggregate level has grown. But from a legal entity reporting perspective, that has not been booked in the Magnet 360 books, because it is a Mindtree customer under Mindtree contract etc. So the legal entity view is to some extent unfortunately distorting this reporting at the moment. Having said that, I think there is still some amount of, what shall I say, updates that we are making to our go-to-market strategy and sales process and so on and so forth, so that should help us bring even faster growth for all aggregate sales force business. We have also in this quarter, applied to, I mean subsequent to this quarter meaning in Q3, we are also formally going back to the regulatory authorities for merging Magnet into Mindtree that will also to some extent help reduced this reporting discrepancy and bring a little bit more streamlined view. Finally, I wanted to also reiterate that comment I made in the earlier point that this quarter one of our existing customers, which is an existing Mindtree customer in the automotive or like I said the global iconic two wheeler motorcycle company, we are now able to cross-sell Magnet 360 services into that company. So again, like a large sales force implementation opportunity there. So the capability, the expertise are all very well recognized in the market place, but a little bit more work has to be done also on the business turnaround, but the numbers don't tell you the full story. There is also the, what shall I say, difference that is happening because some revenue is getting booked in Mindtree right now.

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

**Mohit Jain:** Have you shared subsidiary revenue for this quarter?

**Rostow Ravanan:** So, we haven't, but when technically you call calculate the aggregate difference between Mindtree and subsidiary, because we have the standalone consolidated both in the public domain.

**Mohit Jain:** Separately for Bluefin and Magnet?

**Sushanth Pai:** So Q2 revenue for Bluefin is about \$8.9 million, and Magnet was about \$4.5 million.

**Mohit Jain:** Okay. Second is on the deal win. Usually we have seen and this was particularly true for last year, deal wins being very strong in the second half. So, is there any such seasonality playing out in the third quarter or do you think last year was exceptionally tilted towards the second half?

**Rostow Ravanan:** Last year, we were fortunate if you remember by Q3 of last year, we had the single largest new customer acquisition in the history of Mindtree, a very large global insurance company, chose Mindtree as one of their strategic IT vendors last year. So, there was to some extent I would say like one off event last year. However, we are doing our best to make sure that they are not one-offs by continuing to chase large deals and if you see this quarter both from a new customer perspective, digital perspective, large deal perspective, we are beginning to see strong momentum. So we hope to continue to sort of do well.

**Mohit Jain:** But just from an FY18 perspective, if we remove the 3Q17 number, even if you go behind FY16 or something, the second half is usually better in terms of deal wins. So, what I am trying to understand is they are already towards October. And in terms of pipeline, you already mentioned it is strong, but some sort of better deal wins should we expect from the second half or do you think this year is more evenly spread?

**Rostow Ramanan:** I don't want to say anything right. I mean at the end of the day, there are two unknowns, one is when will the customer make up their mind, because no customer is going to give a guarantee that they have closed their decision on day one or day three or day 60 or whatever, and secondly, whether Mindtree will win or not, so therefore this two factors that are playing. I don't want to therefore commit to what will be the deal win for Q3. The other thing that you have to keep in mind is the overall deal wins announcement that we make is a consolidated number that also includes renewable. So it is also a function of what time which contract comes up for renewals as well. Now, if that contract was previously signed in a certain quarter, it will come up for renewals in the same quarter of this year. So that also has a variability. Finally, I also don't want to jinx Mindtree performance or I don't want to make any comments on what will be the deal wins in the next quarters. However, all I can share with you is the entire leadership team is fully focused on improving the growth momentum. All our time, energy is going in interacting with customers, improving the perception of Mindtree in the minds of our customers and doing all the various things that are necessary to close deals. So we are continuing to do every single thing that comes to our mind to improve the deal closure rates.

**Moderator:** Thank you. The next question is from Shashi Bhusan from IDFC Securities. Please go ahead.

**Shashi Bhusan:** If I look at the growth in digital on a Q-on-Q basis, our growth looks still softer than our larger peers and they are delivering close to mid-to-high single digit on a Q-on-Q basis, some of them at least for sure. If my understanding is right, our size should be an advantage in digital deals, as the deal size is smaller compared to the legacy. Do you think digital can actually grow in high single-digit on a Q-o-Q basis in the near term?

**Rostow Ramanan:** So difficult to give an answer to that question right. I mean all my competitors are also very respected companies. All of them also are global leaders in their own segment etc. So difficult to do any specific comparison with respective to competitor there. And also if you look at competition, there is a huge spectrum of large global companies, large Indian companies, etc. So, I would hesitate to make any comment comparing Mindtree to competition at one level. What I would like to confidently say is Mindtree's message on digital is resonating extremely well with both our customers as well as with the industry analysts. We are continuing to be rated as leaders by many analysts, many analysts tell us that the Mindtree's digital story is amongst the most coherent that they are hearing from our competition, etc. We also showcased a lot of what we do in Digital at the Analyst and Investor Day in August this year. So many of you would have also got a flavor of what digital is as per our definition, what are our strengths in that store, in that segment etc. So, I think we are very well placed and some of this is also to some extent, sort of driven from a quarter-to-quarter perspective. Lastly sort of purely actual perspective, if

you look at the Q2 and if you remove the, what shall I say swing cost because of both the positives and negatives between our two acquired entities, the organic Mindtree business digital grew 8.2%. So we are already delivering I would say high single digit growth in digital even today. So, like I said, on an overall basis, digital continues to be a sweet spot as availed by both customers and industrial analysts.

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

**Sandeep:** This is Sandeep here. Sir, just one question. Last year in Q3 FY17, there were two larger deal wins, with one of the clients from which you got a large deal wins had some client specific issue which has emerged around 3-4 months back. So can you give us the status in terms of the ramp up of that deal and how that deal will be going ahead?

**Rostow Ravanan:** I am not able to recollect which client are you talking about Sandeep. The one of the wins last year was the single largest win in the history of Mindtree. And so overall, I think some of our new wins are progressing well. I also mentioned in my earlier comments that one of our wins for last year which is a new customer for Mindtree has already grown to enter our top 10 customer list. These were customer in the BFSI segment. So we are very confident and very positive on how our recent deal wins are ramping up. Do not at this point of time see any change to any of our customer perceptions on some other deal wins, etc., but if anything happens to change that win, probably we will have to look at it an update the investment community at that stage.

**Sandeep Shah:** Sir, I was talking about the deal win where the client had some cyber security issue, maybe in the US, the client was based in US.

**Rostow Ravanan:** Yes, so again like I said don't want to comment on customer specific issue. Overall our wins are progressing as we have anticipated, do not see any issues in our customer's business as affecting us right now.

**Sandeep Shah:** Okay. That's fair enough. And last few things on the top 10 clients, do you believe as you have said in one of the BFSI client, the most of the issues are behind. Is it fair to say most of your client specific issue in the top 10 list is now largely behind may not be growing, but now may not have a leakage or leaking bucket.

**Rostow Ravanan:** Little bit more complex than that. The issues that we had I would say through most of FY17 have led to a complete reconstitution of our top 10 customers, for example, the third largest customer in Mindtree today is one of the global airline that was not even in the top ten some years back. So, the new top ten is not the same. The accounts in the top ten today are not the same accounts that we had in the past. So there are two factors that play. Those customers are going through their own trajectory, some of them are stable, some of them are declining, etc., for example, one of our customers in the past that at one time used to be our largest customer is a European Telecom Company, that is probably not even in the top ten today. So that shift is to

some extent also skewing the picture that you see right now. So therefore, I don't have like one single answer to your question, unfortunately, Sandeep.

**Sandeep Shah:** And the last thing, Rostow, based on your talk with most of the clients in the larger verticals, do you believe the velocity at the decision making on the IT spend has been increasing? And there could be a phase where the digital integration related deals where the frontend touching the back end, which leads to a larger size of deals have started, so this can result into a next year better than this year?

**Rostow Ravanan:** Again, like I said, I don't want to make any commitments or any projections into the future, because we don't have an overall sense for next year's numbers at this stage etc. On a standalone basis, I'll just take a part of your question. We are already beginning to see much larger deals in digital and many of them are also multi-year kind of deals, and so it has gone beyond the initial few hundred thousand dollars proof of concept kind of a phase into a more enterprise wide kind of projects. So that is beginning to happen. We are beginning to see larger multi-year multi-million dollar deals in digital.

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

**Gaurav Rateria:** Rostow, firstly 2Q typically turns out to be quite strong seasonally, but this time on a constant currency, it has not turned out to be that strong. And your commentary for second half, which is typically seasonally weak is very strong. Have you seen any push out of deals from 2Q to 3Q, which makes you very confident about the second half?

**Rostow Ravanan:** Not necessarily, I think, like sort of I commented before as well that the wins that you had over the last 3 or 4 quarters are going through their current sort of ramp up phase etc. and that is leading to, I would say, reasonably high confidence for full year growth picture. Q2 also had little bit of, I would say, impact in, for example, Magnet, which had a decline etc. and are beginning to see some signs where some of those should reach stability and do better there. So I think it is a combination of factors that give us the confidence that quarter-by-quarter they will have their own issues, but the underlying trend in terms of wins, ramp-ups, pipeline, momentum etc. are continuing to be strong and therefore, for example, both with revenue visibility be a little bit gives us confidence and the combination of both the revenue increase with other factors also give us confidence on the improvement at a margin level also.

**Gaurav Rateria:** Sure. Secondly, Rostow, your larger peers shared that as digital sizes are increasing, deals are moving away back from the boutique and smaller vendors to the larger vendors and it's kind of an advantage for the incumbent vendors. So, are you seeing a similar kind of a phenomena? What is your take on this?

**Rostow Ravanan:** Again, like I said. It will be difficult for me to react to comments from competition because at the end of the day each of us is serving different needs of customers, etc. We are not talking only for Mindtree, we are beginning to see larger, again, reiterating multi-year, multi-million dollar

wins in digital. We have made very important strategic choices on how we are attracting digital, what digital means to us, what is our go-to market, who are our alliances and partners that we are building deep relationships with etc. So the choices that we have made, the resources that we have built, the investments that we have made are positioning us very well in the minds of customers on digital.

**Gaurav Rateria:** Sure. Last question from me, Rostow. You talked about digital business has much better margins at the project level. When do you think that those project level margins start reflecting at the company level? And what are the key indicators we should be watching out for our utilization rates at on-site, is that one of the indicator to look out for?

**Rostow Ravanan:** It will be a combination of factors, right. Utilization is one. Cost of whatever talent is another. Successful execution, because many of these also tend to be in some form or fashion either fixed price or outcome based or sort of commercial engagements like that there. So unfortunately, Gaurav, I am not able to give you like one single number at this stage in terms of improvements in whatever contribution from digital making us sort of overall impact at the Mindtree level. Part of it is also likely explained in this quarter is also a wash between 2-3 positives and 2-3 negatives as well, right, like we had \$1.9 million charge that we had to take for people cost, so when we restructure one portion of our business in Europe. \$500K charge because of buyback etc., so little bit of it is unfortunately not visible to the external world right now. But I don't have one single parameter that I can point out to you and say, watch it. On an aggregate basis, we are completely conscious and doing a lot of things to help improve margins at an overall level in Mindtree.

**Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Sushanth Pai for closing comments.

**Sushanth Pai:** Thank you, Zaid. Thank you all for joining this call. We look forward to staying in touch in the coming days. And if you have any further questions or clarifications, you can write to us. Thank you once again.

**Moderator:** Thank you very much members of management. Ladies and gentlemen, on behalf of Mindtree Limited that concludes today's conference call. Thank you all for joining us and you may now disconnect your lines.