Mindtree Limited

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Transcript of analyst call

First quarter ended June 30, 2020

July 14, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Mindtree Limited Q1 FY '21 Earnings Conference Call. As a reminder, all participants' 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, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Amisha Munvar, Head of Investor Relations at Mindtree. Thank you and over to you, Madam.

Amisha Munvar: Thank you, Rio. A very good evening to all of you. Welcome to this conference call to discuss the financial results for the first quarter ended June 30, 2020. I trust all of you and your loved ones are safe and in good health. Today, on the call we have with us Mr. Debashis Chatterjee, Chief Executive Officer and Managing Director; Mr. Dayapatra Nevatia, Chief Operating Officer; and Mr. Vinit Teredesai, Chief Financial Officer. We will begin the call with a brief overview of the company's Q1 performance after which we will have the floor open for Q&A. The webcast will be in listen-only mode, but you can post the 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 concluded the Media briefing call in the afternoon. Before I hand over, let me begin with the safe-harbor statement. During 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 as outlined in the quarterly factsheet which is available on our website. We do not undertake to update those statements periodically. I now pass it onto Debashis.

Debashis Chatterjee: Thank you, Amisha. Good evening and good morning to everyone on the call. I trust all of you and your loved ones are safe and keeping well. The pandemic has reaffirmed our belief that technology forms the core of businesses. Our clients are also evaluating new markets, products, and growth strategies. Adapting to the new normal with resilience and emerging from it is the need of the hour. I am happy to share that on delivery front, we succeeded in our seamless transition for deals won in previous quarter as well as current quarter. For multiple crucial projects, we completed Go-Live as per the planned schedule. I thank our clients for collaborating on this effort as well as kudos to the Mindtree teams to have made this happen. We continue to receive accolades from clients for proactive responsiveness during the global health crisis. The steps taken by us for re-skilling and deploying talent, seamless transition to the new normal, all time deliverables at collaborative spirit with our partners have been well appreciated. Our quarterly projects feedback survey reflects the same and we continue to receive high scores. In terms of the order book, it has been a satisfying quarter. Against the backdrop of a very challenging business environment globally, our order book continues to be healthy as we continue to renew as well as gain market share within our portfolio.

Engaging with clients proactively has always been our approach thereby helping them in these unprecedented times with precision and high agility. Our strategic initiative, Help and Grow, covering new business models, cost take-outs, and workplace modernization has set a strong foundation to gain market share for us. The initiative has also helped our clients quickly adapt to the new normal. Mindtree minds are our key assets. We continue to strengthen our employ engagement initiatives. During the quarter, to ensure health and safety of our minds, we have tied up with mid-tier hospitals and taken over good standard lodges in the vicinity and converted them into COVID care centers for quarantine and care with no liability on use and pay basis. We opened up 24 X 7 medical helpline staffed by special doctors for the benefit of Mindtree minds and their families. Also, we have the services of a dedicated ambulance service 24 X 7 at our Bangalore office. We repatriated more than 130 Mindtree minds and their families across the globe and ensured their safe return. Physical health is important for a healthy mind. Company offers virtual yoga sessions in the morning and evening for the health conscious minds. These initiatives were very helpful to ensure well-being as well as safe workplace environment for all of us to navigate smoothly through this unprecedented crisis. This was possible due to the unrelenting dedication by our admin and people function teams. We continue to contribute for the well-being of the society. For this quarter, Mindtree matched up to the contribution made by Mindtree minds with the amount of 12 crores to support the respective State Government's to fight the battle against COVID-19.

Now, moving on to the financial highlights for the quarter. Achieving profitability of 18.2% despite the uncertainty in the global economy is the result of our relentless efforts to drive operational efficiency. For the quarter, our revenue is $253.2 million. Travel, transport, and hospitality which we call as TTH segment is the most impacted in today's pandemic situation leading to a sequential decline of 9% at the company level. On the demand side, there is increase in traction within our CMT and RCM segments. Our measures to deep mine the accounts continue to show the desired outcomes in terms of healthy order wins of USD 391 million across industry segments. With continued focus on tail account rationalization, we ended the quarter with 292 active clients with the addition of six new clients. We will continue to build on our existing strengths and also drive multi-year annuity deals. On the people front by the quarter end we had close to 21,950 Mindtree minds. During the quarter, we had gross addition of around 740 minds; onboarding, induction, and orientation programs have continued using our virtual digital platforms. The training for Campus Minds is also being done smoothly through the collaborative tools and platforms. We had a reduction in attrition for the quarter. The last 12 months' attrition has reduced to 16.6% compared to 17.4% in Q4. Our re-skilling initiative and digital onboarding platform helped us to redeploy a record number of Mindtree minds for the various assignments. Adaptive learning has been and will continue to be our key differentiator. For the quarter, we saw more than 680,000 hours of learning which is 70% more than the earlier quarters. This exponential increase in learning and re-skilling on our e-learning platform is helping us to have constantly future-ready talent.

Osmosis, which is Mindtree's annual technology festival is one of the most awaited events in the organization. This year the event was conducted with the theme, Possibility Next, where we opened a futuristic client problems for our technologists in the Ideathon / Makeathon tracks. We also conducted the 'Techie of the Year' initiative virtually in our college campuses with a record of 10,000 plus participants. Mindtree has been recognized amongst the top 30 employer brands in the country like People Business Group for its employer branding and best practices.

Let me share some of the wins for the quarter. For a leading manufacturer in outdoor maintenance and gardening equipment, Mindtree has been awarded a program to redefine the e-commerce journey by bringing direct to customers channel using Salesforce Commerce Cloud and by deploying a new content management system thereby opening a new revenue stream for the client organization. Mindtree has been awarded a multi-year global infrastructure services engagement for a top multinational corporate travel and meetings management company to provide 24 X 7 remote infrastructure management, administration, monitoring, and support services for their datacenters across the enterprise. Mindtree has been chosen as a strategic partner for the implementation of Salesforce based digital solutions and service rollout for pioneer in retail tele-dentistry enterprise based in North America. For a global travel technology leader, Mindtree has been chosen as a strategic implementation partner to accelerate their cloud transformation and modernization roadmap to create a new travel marketplace comprising critical products and systems across their entire portfolio. Mindtree has been chosen for development and testing services for a world leading healthcare manufacturing and distribution company based in North America. Now, let me pass on to my colleague, Vinit, to share some of the other financial highlights.

Vinit Teredesai: Thank you, DC. Good evening and good morning to everyone. Our fee revenue for the quarter declined by 8.7%, volumes increased marginally by 0.4%, and pricing realization declined by 9.1%. Drop in price realization is largely due to decline in revenues from the travel and hospitality segment. Our reported EBITDA margin for the quarter is at 18.2% compared to 17.1% in Q4 of last financial year. Improvement in margin is led by tailwind of 30 basis points from operational efficiencies and 80 basis points from favorable currency movement. The headwind of 90 basis points is mainly on account of visa cost and matching contribution for COVID-19 relief activities. The effective tax rate for the quarter is 26.5% as compared to 21% in Q4 of last financial year. Net forex loss for the quarter is US $3.4 million. Profit after tax margins for the quarter is at 11.2% as compared to 10.1% in Q4. PAT in absolute terms is at US $28.3 million resulting in EPS, earnings per share, of Rs. 12.9 per share for the quarter ended as compared to 12.5 per share in Q4. Days of sales outstanding for the quarter is at 67 days compared to 66 days in Q4. The EBITDA to operating cash flow conversion for the quarter is at 175.9% and to free cash flow is at 172.1%. Our utilization including trainees declined to 75.5% as compared to 76.5% in Q4. Utilization excluding trainees is at 77.4% compared to 78.8% in Q4. Our contract signing for the quarter is at USD $391 million out of which renewals were US $315 million. New contracts were at US $76 million. Contracts to be executed within one year were at US $265 million and greater than one year were at US $126 million. As of June 30th, our cash flow hedges are at US $863 million and on balance sheet hedges are at US $106 million. Thank you and I now hand over back to DC to cover on outlook.

Debashis Chatterjee: Thank you, Vinit. We have recently concluded our strategy refreshing activity. These days most of the transformations are led by digital technologies. Taking cues from our clients' ongoing needs as well as emerging priorities in a post-COVID world, we have reorganized our capabilities and expertise into four service lines. First, Customer Success, through customer success we enable our clients to deliver intuitive experiences to their clients faster in an agile, secure, and resilient fashion. Second, Data and Intelligence, through data and intelligence, we help our clients articulate implement and realize their strategy to drive business outcomes by leveraging data. We support clients conceptualize their data strategy, identify the right AI and analytics, used cases, and implement a commensurate data architecture. Third, Cloud, we partner with our clients to enable their end-to-end cloud transformation journey. We help clients assess their existing technology landscape, establish the end-state view, move to the cloud, operate efficiently and unlock value using APIs and cloud native development, and lastly Enterprise IT. At the center of our enterprise IT service lines, lies the ambition to enable our clients, transform their technology ecosystem. We aim to deliver zero cost transformations where we help our clients transform their ecosystem steadily while we deploy new age monitoring and support systems. From near-term perspective, we continue to see uncertainty in travel segment. While deal conversions are taking a little longer, we are seeing good demand traction in CMT and RCM segments. With all these tractions, we anticipate our Q2 revenue to be better than Q1. Our focused service offerings, healthy deal pipeline, surge in digital demand, steady ramp up of deal wins and future-ready talent gives us confidence to strengthen our position in the market. We will continue to grow and also continue to drive operational efficiencies. I now pass this back to the operator for opening up for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: DC, you just mentioned that we expect Q2 revenue to be better than Q1, can you please clarify a bit in terms of demand environment, what do you see, has it bottomed or is this partially a factor of easy coms from Q1 quarter and specially on the travel and hospitality vertical given the sharp erosion which we have seen, is there a risk to the vertical survivability in your business or do you expect this to rebound?

Debashis Chatterjee: Thanks Mukul, let us talk about TTH first, as you rightly said there was a sharp erosion which was inevitable, this is the vertical which was probably in the forefront when the entire world was hit with the pandemic, but if I look at the relationship that we have with all these clients, it is a very longstanding relationship with many of the marquee logos that we have worked with, so obviously there is a sharp downsizing in terms of the relationship which we have, but we are very hopeful that as they rebound, our relationships will also, so we will definitely rebound once our clients also rebounds, so we are very hopeful that this relationship, the nature of work that we do, the kind of domain knowledge we have working with these clients, I am sure clients also value that. Now, in terms of what is the timeline, that is a little difficult to say, but at least for the next couple of quarters we expect softness in TTH, but having said that there are pockets of conversation that has started, some of the engagements that we are doing with some of our travel clients which were all put on hold, some of them are opening up slowly, but it will still take a little bit of time and when I said Q2 to be better than Q1, probably it is the maximum hit that we had to take from COVID that probably happened in Q1, but as the pandemic unfolds, there are couple of areas where we have seen good traction. One, vertical is CMT and the other vertical where we have seen good traction is the CPG and also the traction that we see at an overall level, the adoption of cloud and the focus on digital transformation, workplace transformation, cost takeout all these things are also kind of accelerated many of the clients' mind, so there are opportunities that are emerging, so that is why we are very confident that our Q2 will be better than Q1 because some of the things which were put on hold or slowed down, we are now seeing that they are kind of coming back slowly.

Mukul Garg: Thanks for that detailed commentary, just a quick clarification from Vinit, Vinit can you help us with the breakup of the operating cost, what was the gross margin on a competitive basis of the last quarter and how much SG&A you incurred this quarter?

Vinit Teredesai: Mukul, our gross margin more or less remain the same, there was a marginal depth, however, we were able to find out operational efficiencies into our G&A segment and obviously there was also a certain amount of benefit that came in terms of our other income, otherwise, the gross margin has not grossly changed.

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

Apurva Prasad: DC, my question is more on the pricing environment, the context of that big drop in the first quarter versus good collections also, so I mean how do you really look at pricing outside the travel and hospitality segment, I mean especially because when we are looking at tight enterprise budget scenario how is it that you are looking at it?

Debashis Chatterjee: We do not see major impact to pricing per se, but as you can understand that many of the clients we have been working with then we have a very longstanding relationship with them and the entire client community because of COVID many of them beyond TTH as well, many of them have gone through a very tough time during Q1, so in terms of specific clients there are conversation that we had where we have offered some discounts on a case-by-case basis, but in my view this is a very short-term phenomenon, but over a period of time I think pricing is going to be stable and I do not think this is anything to worry about in the longer term.

Apurva Prasad: Can you quantify of that 9.5% pricing impact, how much of it would be temporary in nature which we expect can come back in the next couple of quarters?

Debashis Chatterjee: I do not think we can give a breakup of that, that is not a very material amount.

Apurva Prasad: So you are saying the temporary element is not material?

Debashis Chatterjee: Yeah.

Apurva Prasad: My other question is on the top account that seems to be continuing on a very slow trajectory, so how do you more from a medium-term perspective, how should we look at the scalability of that particular portfolio?

Debashis Chatterjee: Sorry, which portfolio you are talking about?

Apurva Prasad: The top account.

Debashis Chatterjee: I think there are a few things that you need to understand about the top account, one is the bulk of the growth in the top account is based on the quality of service that we deliver to the top account. During the pandemic, the top account also there was a lot of spike in terms of work that came from the top account, so I think that is also something which has helped us, so over a period of time and also third thing is if you look at the top account the kind of work that we do in top account is also well diversified across multiple portfolios within the top account, so given all these factors I think we still feel that the top account is steady and over a period of time I think we still feel that we can nurture the account further as we nurture some of the other accounts also within our portfolio.

Moderator: Thank you. We take the next question from the line of Diviya Nagarajan from UBS. Please go ahead.

Diviya Nagarajan: My question is on the operating margins, I think the operating margins this quarter were clearly driven by a fair amount of SG&A savings, could you just run us through what proportion of this is because today there are some temporary reduction in costs and what is sustainable and on your gross margins again, we have seen the pricing impact really slow, so what kind of recovery can we look at as the year progresses?

Vinit Teredesai: Diviya, around 25% of our overall operational efficiencies you can say are like permanent annualized reduction, the rest of all the expenses are related to the revenue drop and there are also one-off of expenses like the visa expenses which are typically incurred in Q1, so to that extent there are these headwinds also that have come and hit us, but otherwise on a gross margin basis as I mentioned earlier, our gross margins remains pretty much intact most of these savings have come through the optimization initiatives that were being driven since the last couple of quarters and will continue to do so in the forthcoming quarters.

Diviya Nagarajan: DC coming back to the revenue question, do you have a sense on when revenue growth can once again come back into positive territory?

Debashis Chatterjee: As I said Diviya, we are definitely looking at Q2 to be better than Q1 and if things do not go any further worse than where we are right now, I think we are positive to see a good traction as we go along. TTH per se will be a bit of slow recovery, but if I look at some of the other industries in which we support our clients, we can expect that thing should gradually look good, but we can certainly talk about Q2 at this point of time.

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

Sandeep Shah: Just wanted to understand whether the large deal of Realogy whether it is reflected in Q1 numbers or believe that the ramp up may start from 2Q onwards which gives you a confidence of a positive growth in 2Q?

Debashis Chatterjee: Yeah, I think Sandeep to answer your question, the transition has been going on in fact we have very successfully completed the transition for this particular engagement and the bulk of the recognitions will start from Q2 onwards.

Sandeep Shah: Sir, in terms of the other large deal pipelines, we were positive about some deals at an advanced stage, so do you believe the prospects are improving in terms of closure starting from 2Q or it may take longer and may go into second half of this financial year as a whole, and second question is in terms of margins, so one can expect that margin may still have an upside versus the 1Q levels because visa cost of 90 BPS may not really occur in the second quarter and cost optimization exercise is still to undergo and your view on wage hikes, any decision has been taken because generally it is starting from 2Q?

Debashis Chatterjee: I did not get your last part question, but we will back to it later, but in terms of large deals I can only say that the deal closures have been taking a little more time. It has been a little slow process given the current situation and as far as margin is concerned, I have always mentioned that our endeavor is to take the margin quarter-on-quarter, do improvement on the margin and that is what we have been focusing on, but I do not think we want to take the margin so that it starts impacting growth, so that is all I can say, but over a period of time our endeavor is to bring in more and more operational efficiency in the system.

Sandeep Shah: My question was on wage hikes, any decision being taken on that side?

Debashis Chatterjee: We have not taken any decision as yet, but we have decided that as a part of our annual process we also do the promotions so we will go ahead with the promotion that we normally do, but wage hike we have not decided.

Sandeep Shah: Last question to Vinit just on the hedges, looking at the current spot rate, do you believe going forward there could be more positive gains from the cash flow hedge because at the end of Q4, you had a big losses sitting as notional losses on the reserves and surplus, so any view on that will help us?

Vinit Teredesai: The hope always is that the Rupee will not depreciate from where it is today, so as far as that continues, we will see some positive impact coming up.

Sandeep Shah: So even at current spot rate one can expect some positive gains starting from 2Q?

Vinit Teredesai: May not be all in Q2, but definitely in the second half and onwards, you should anticipate that subject to rupee remaining at where it is or appreciating from where it is.

Moderator: Thank you. The next question is from the line of Sudhir Guntupalli from Motilal Oswal. Please go ahead.

Sudhir Guntupalli**:** So over the last four quarters if you look at our share of revenue from fixed price contract increased almost 12 percentage points from 55% to 67% and in this quarter also the shift is very sharp at around 8 percentage points or so, so is it entirely driven by a strategy shift towards more of long term annuity projects or there is some other aspect here? Secondly, if in this quarter the new large deals are not completely ramped up, why is there such a sharp change in the mix?

Debashis Chatterjee: Okay. I'll let my COO, Dayapatra, take that question

Dayapatra Nevatia: Sudhir good evening, clearly it is part of our strategy. For last couple of quarters, we have been driving more and more annuity deals, more and more long-term deals, so as a result the mix of FPC and FMC has been going up and we see to continue to move up as we move forward. This also helps us in bringing in more operational efficiencies because we have a longer term engagements, and therefore, our ability to implement some of the cost levers is much higher and also it helps our clients also realize more benefits and therefore it is a win-win situation for both of us and that is why this strategy is working out very well for us.

Sudhir Guntupalli: Sir, in this quarter, why is there such a sharp increase where the new large deals have not completely ramped up compared to the previous quarter?

Dayapatra Nevatia: It is just the mix that have changed because of some of the deals that have clamped on because of COVID situation especially in travel and hospitality so that mix change has led to sharp increase, this much increase would not have happened otherwise.

Sudhir Guntupalli: Going forward this change in mix will it also entail any accounting changes in terms of let us say revenue booking etc. or it will be more or less normal?

Dayapatra Nevatia: No major accounting changes that we anticipate.

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

Sandip Agarwal: Sir, I have just one question, first of all congratulations on a very good execution, just wanted to know what is your view on the Microsoft business, this is top line because I know they are doing extremely well and so we are also getting benefited, is there a possibility that this momentum comes down quickly, the point I am trying to understand is that they are doing extremely well and that is the reason there is a high growth right now and that is compensating for our low growth in travel, so is it the first season that their growth pulls up before travel picks up, I am just trying to know whether there is big volatility which can happen for one or two quarter in between, I am not asking for a guidance but just a sense?

Debashis Chatterjee: Sandip, your line is a little---

Dayapatra Nevatia: I think what he is asking is, is the growth from large -- largest customer likely to come down before TTH picks up, so that may have impact on overall revenue.

Debashis Chatterjee: I think whatever we see right now is a near term, but overall I do not think there should be any impact.

Moderator: Thank you. The next question is from the line of Vimal Goel from Union Mutual Fund. Please go ahead.

Vimal Goel: Sir, I just wanted to understand the margin bit once again, firstly on the gross margins you said the gross margins are relatively stable, but on the reported basis I have seen there is a sequential decline of about close to 400 basis points, so this would have been entirely driven by this temporary blip that you have seen in pricing, right?

Vinit Teredesai: Not necessary, there is also an impact on account of, we have been in the knowledge transition phase for couple of our clients and the impact of that getting reflected in revenue, you will see it in the subsequent quarters, so I do not think so the observation what you made is correct. Then there are also efficiencies that we have been able to manage on account of reduction in travel, obviously travel has not happened and then there is also an optimization on some of our subcontractor cost and professional fees.

Vimal Goel: After all these optimization and efficiencies, the gross margin has fallen but you should see an improvement going ahead, right?

Vinit Teredesai: That is the expectation.

Vimal Goel: Sir, just on your deal wins, Mindtree has done an excellent job of continuing this deal win momentum, just wanted to get a sense on how these deal wins are spread between across your top clients and other non-top clients, so is it well spread, if you could just give a sense on that?

Debashis Chatterjee: It is quite well spread, Vimal, I think the reality is whatever you see in this quarter is because it is a little aberration because of significant ramp down in TTH and the top account continue to grow, so if you ask me the way I look at it, the top account will be steady, we still want the top account to grow but we are expecting that there will be other accounts also which will be growing not necessarily TTH, but some of the other segments like we are seeing good traction in CPG as well as other CMT accounts, so that will continue to drive the growth.

Vimal Goel: Just one data point question, if you could just give me the effort mix the onsite-offsite shore breakup this quarter, revenues?

Debashis Chatterjee: I think it should be available in the factsheet, I do not have it handy.

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

Madhu Babu: Sir, looking at second half, I mean the stimulus has relatively helped or relatively stable US economy scenario, so if there is no second stimulus, so how do we see second half recovery for the company overall, and secondly, now top account 30% I think this is the highest in any midcap having a single 30% of revenues, so are we starting to feel a bit uncomfortable because in any given scenario if it starts to decline that can have a huge impact on the performance?

Debashis Chatterjee: I could not get your first question, but I can talk about the second question and then we can get back to the first one. In terms of the top account, I think there has been always an endeavor to make sure that we balance the risk, there is a well laid out strategy within the organization in terms of how do you look at accounts across other industries and how can you grow those accounts so that it can balance it out, the strategy is very well laid out, the strategy is very much in place but at the same time we also want to make sure the top account is healthier that can also grow, so there is to be a perfect balance. I think what you see in Q1 is a slight aberration because of whatever has happened in terms of TTH, I mean if you have suddenly a significant portion of your revenue or 40% to 50% dip in a particular vertical then that kind of drives a lot of other behavior, so that is what you are seeing, but over a period of time we ourselves also believe that we need to mitigate this and we have a plan in place, but it will probably take a couple of more quarters to kind of go in that direction. I think your first question was stimulus, I do not think there is much of an impact for us with respect to that.

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

Manik T.: My question is with regard to the pruning of the tail accounts that we have been doing over the last several quarters, if you could help us understand how would that link with the sales and support headcount rationalization that we have seen and how much more pruning do we see on this account and how is that helping from a profitability standpoint?

Debashis Chatterjee: In terms of tail accounts rationalization, this is something which we have been talking about for a while and the main purpose is that we want to be more focused in terms of our strategic clients, we want to cross sell and up sell in terms of our strategic clients, but having said that we do not want to do anything which will cause disruption to any of the tail accounts, so essentially this is again depending on the specific, we are consciously trying to divert all in terms of mining the existing accounts and if you look at my commentary, we have very clearly identified the four service lines that we feel that there is in the world where every transformation is led by digital, we are very confident that these four service lines can actually be cross sell and up sell sold in every account, so we would rather like to do that in the key accounts, in the top 20, top 30 accounts within our organization portfolio and focus on that rather than trying to focus on too many accounts at the long tail, so that is the rational that we have been adopting in terms of rationalizing the long tail where we do not want any disruption and I do not think there is any, as we do the rationalization of the long tail, we are also very clear that we should not really impact in terms of our revenues and margins and that is why the planning is required where you do it very directly. In terms of sales and support headcount, I think we are talking about a very miniscule number, there are certain refresh that has to happen as we are refreshing our strategy, we also need to get folks in the team who can align to the way we want to go to our client, so I think what you see over here is BAU and it is more of a strategy to refresh rather than thinking anything beyond that.

Manik T.: Sure. If I could ask one more. What we have been hearing is that some customers are asking for differential pricing on work from home. If we could understand from this, you are also seeing something similar happening on the ground and how will you see it….

Debashis Chatterjee: I do not think we have come across situation, as I said there has been situation which is a near-term during the pandemic where we have supported our clients with whom we have a longstanding relationship, but I do not think beyond that we have seen any differential pricing.

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

Kawaljeet Saluja: Congratulations on very good margin performance. I have just a quick short couple of questions, first and foremost is that the travel vertical decline by about 50% quarter-on-quarter is that been the general budget cuts by client or has there been any shelve on this? Second is that the entire realization decline of around 8% to 9% is staggering actually by any standards, so what really transpired, what is the kind of concessions that you have given, just wanted to understand that here?

Debashis Chatterjee: In terms of TTH as I said most of the impact that we had was in TTH, the business of our TTH clients have really come to a grinding halt and we work with quite a few marquee logos and as I said we have got great relationship going with them, so to your point whether these projects have been shelved or it has been delayed, I think at this point of time I would say that there are projects which they just put on hold and as we speak we are seeing one or two of those projects even coming back, so I am hoping that it was a pause that when they took and that was the best thing to do for them when the hotels were closed, the airlines were not flying, but over a period of time I think those projects coming back over a period of time and in terms of the overall impact in the organization is around 8% to 9%, but if you look at beyond TTH also some of our other clients, they definitely wanted some help in the Q1 in terms of tiding over the near term prices and that is something which we did and I think what you see over here is the TTH clients where things got completely deferred as well as in some of the other clients where things become a little where they wanted some help in terms of concessions in Q1, but over a period of time Q2 onwards we expect many of those things to slowly come back.

Kawaljeet Saluja: DC, my question specifically was that had that been the average decline in budgets of clients in the TTH vertical or has Mindtree lost share?

Debashis Chatterjee: No, no. we have not lost share, I think when you talk about ramp down across the TTH clients, the ramp down is pretty much in my view across all the partners they have been working with, I do not think we have lost anything in terms of share of the wallet, it is just the situation it is, so that is why we are very confident that once things do open up given the relationship and the given the nature of work that we do, the kind of critical applications that we have developed, we are very hopeful that they will again call us back at the right time.

Kawaljeet Saluja: Second question specifically was that the realization decline was 8% to 9% quarter-on-quarter given that volume for the quarter is flattish so the realization decline was 9% which is staggering by any standards given that 30% of the business is Microsoft and the realization of that would not have changed, but just trying to understand the magnitude of pressure and the consequences of it?

Vinit Teredesai: As I mentioned earlier, we had done a couple of knowledge transition at this point of time, so into that context you will see that there is an impact of the revenue on that will be coming on in the subsequent quarters, so this knowledge transition at this point of time, we have been holding our clients and helping them in getting this transition done, so to that extent you are seeing the billed hours on a higher side, but comparatively the revenue increase is not happening on the same pace, but in subsequent quarters you will see the impact coming in.

Kawaljeet Saluja: Can you just help me with the real underlying decline in realization because this is just, I mean I think what you are saying is just accounting related, so what is the underlying decline realization if you strip of the knowledge transfer volumes?

Vinit Teredesai: There is no decline in that context, what we are saying is right now in the current scenario we have been handholding couple of clients in doing the knowledge transition, the revenues will flow in the subsequent quarters.

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

Princy Bansali: Sir, my first question is what is the status of facility expenses and how much of it is recurring?

Vinit Teredesai: The facility expenses right now we have only now factored in as far as our rentals are concerned it continues, the utility expenses right now since all the facilities are not operating to that extent there is a reduction in those expenses. Right now we are not planning for any new incremental facilities to come in the short-term, so to that extent whatever you are seeing in the Q1 as far as the facilities continues in the same fashion, there will not be any material change.

Princy Bansali: On the non-top 10 client size, they seem to be quite weak this quarter, do you think some sales and marketing efforts will be required on that side and what is your view there?

Debashis Chatterjee: From every quarter to quarter things may change a little bit because many of the work that we do within our client portfolios are still project based, so as we get into more of annuity based you will probably see that variation happening to a lesser extent, but we have got all the efforts going on in terms of focusing and as I said we have been very clear that we want to rationalize the long tail and deep dive into all the top 20 accounts, we have been very vocal about account mining, so those things are already in place and we should be able to see results as we go along and we have just recently launched this four new service lines and we are going to align our service offerings also with respect to the service lines, so which is again something which we are very hopeful that will be very relevant to our clients especially the top 20 clients.

Princy Bansali: Okay, and in terms of your BFSI segment and the testing side, they seem to be quite weak this quarter, what is the outlook there?

Debashis Chatterjee: When you say testing I think most of the impact has been because of travel and hospitality and that is something which we expected and we have also been doing a lot of cross trading and redeploying our resources in other engagements and as far as BFSI is concerned, yes, we have been fairly strong in the insurance even in banking also there are few deals we are working on, so we have to just wait and see, and hopefully, we should be able to revive that as we go along.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: DC, just two questions from my side, one is again on the travel and hospitality vertical, so this vertical as we know saw a sharp fall and we now come down to around $20 million on a quarterly basis, so just wanted to check with you that basically given that we are guiding for a better revenue or growth in next quarter, do you believe that at $20 million of run rate we would have bottomed out in travel transport or you could probably see some more pain in the sector before it starts reversing its growth path, and secondly on the margins front if I could just ask basically you mentioned that there are multiple margin tailwinds in terms of weaker cost which will not be there from next quarter and also the knowledge transition at least that will be booked, what are the margin headwinds that you see in the next couple of quarters which could probably balance out part of that of those margin payments that we have?

Debashis Chatterjee: So Vibhor, in terms of travel I would say where the pandemic is today and whatever we know about it if there are no further deterioration, I would say we have kind of reached the bottom, it is fair to say that we have reached the bottom and things will only improve from this point of time, so that is what we are hoping, but again depending on how the things emerge and in terms of margin, I do not think there is any significant headwind that we are talking about at this point of time and one thing which I want you to understand is that margin is, this is something that we kind of put a process almost three quarters back where we have a key which is kind of looking at how do you get more and more operational efficiency in the business, so this is something which has been an ongoing effort and we are continuously looking at how we can deliver better, how we can have more operational efficiency so given all those initially which are going on, our endeavour is to kind of make the margins better as we go along.

Vibhor Singhal: So would it be safe to say that assuming rupee remains stable, we could basically should see some kind of if not huge, but some kind of minor improvement in margins quarter over quarter?

Debashis Chatterjee: Yeah, I think that is fair to assume.

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

Ashwin Mehta: I had one question in terms of your segmental margins so in high-tech we have seen almost 430 BPS increase in margin quarter-on-quarter, you added almost $9.5 million of incremental revenues and just 2 million odd in terms of incremental cost, so just wanted to understand was there any non-effort linked revenue that aided margins in terms of prices?

Debashis Chatterjee: I think the revenue was good, the revenue was kicking in, there was significant kick-in during the COVID period, I think that is something which helped us in terms of margin and I do not think there was any additional SG&A that was required to kind of drive that business because of the investments that we have already done, I think that can give a boost.

Ashwin Mehta: In terms of the transition cost that we are talking about, would that be distributed across verticals or there may be higher concentration in high-tech and media?

Debashis Chatterjee: I think specific to high-tech it is not significantly material, but the transition that is happening is mostly across some of the other verticals and we have been successfully completing those transitions and getting into the steady state.

Ashwin Mehta: My second question was in terms of depreciation, there was almost a 12% reduction in depreciation, so what drove that and is this a sustainable level to look at?

Vinit Teredesai: The depreciation reduction is mainly on account of we have revised our depreciation policy on laptops and to that extent that is a one-time capex we have done, but it is a sustainable one given the fact that in the forthcoming quarters we are not seeing any significantly incremental capex spending.

Ashwin Mehta: Sir, last question in terms of from other expenses perspective there are four cost items which is travel, subcon, other expenses, and professional services, which have given you almost a 530 bps QOQ decline, so as things normalize, do you expect these costs items to come back to normal or they will possibly settle at lower than what they have historically been?

Vinit Teredesai: At this point of time, the assumption is it will remain where it is, obviously we do not know couple of what can transpire in terms of this outbreak and challenges that can throw, but at this point of time our assumption is it stabilizes where it is.

Moderator: Thank you. We take the last question from the line of Alroy Lobo from Kotak Investment Advisors Limited. Please go ahead.

Alroy Lobo: My first question is actually on the fixed price portion of your business that has gone up very materially in this quarter and also your top client has gone up materially, can one conclude therefore that the top client you are doing mainly fixed-price projects then for this material change in the fixed price proportion?

Debashis Chatterjee: No, I do not think that is fair to say, I think we answered this question during the call, the TTH revenues have kind of dipped and that has kind of changed the height of the overall fixed price ratio proportion for the entire organization, I do not think there is not much of material change from a top client perspective in terms of fixed price.

Alroy Lobo: Also in terms of your receivables, I was just looking at your cash flow statement, you released about 69 crores of cash flow from your receivables with respect to the quarter which was of the previous year, just wanted to understand your receivable days have more or less remained the same, can you explain how you manage to release this amount of receivables with your cash flows?

Vinit Teredesai: If I understand your question correctly you are asking how we are able to manage our receivables at the same level compared to the last quarter, am I right?

Alroy Lobo: I was just looking at your operating cash flow statement, you released about 69 crores for the quarter ending June 2020 and you released about 173 million that is 17 crores in the previous quarter last year June quarter, but when I look at your revenues and I try to do the calculation with respect to your receivable days, it appears that you should have released far more than what we have shown, just wanted to reconcile this number, your revenues are down by about 1040 or 1050 crores from what you have in the previous quarter, so to that extent if the receivable days remain the same, you should be releasing far more amounts of cash flows from receivables?

Debashis Chatterjee: We will come back to you off-line on that.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Debashis for closing comments.

Debashis Chatterjee: Thank you everybody for joining the call, I mean I just wanted to summarize. We closed the quarter with revenue of US $253.2 million, margin of 18.2% along with a healthy order book of US $391 million which was in line with our expectations despite the challenges faced by clients during these unprecedented times. Our near-term focus is to collaborate with clients and initiate proactive conversations for cost takeouts, revenue play, and workplace modernization that helps our clients to overcome current prices. Our strategic initiatives to deep mining accounts as well as participating in multi-year large deals engagement with advisors and partners will help us drive profitable growth. Thank you, stay safe, stay healthy.

Amisha Munvar: Thank you everyone, look forward to connect with you during the quarter have a great evening.

Moderator: Thank you very much. On behalf of Mindtree Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen, you may now disconnect your lines.