

# Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Third quarter ended December 31, 2020

January 22, 2021

**Moderator:** Ladies and gentlemen, good day and welcome to the Mindtree Limited Q3 FY21 Earnings 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 call, please signal the 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, Investor Relations. Thank you and over to you, ma'am.

**Amisha Munvar:** Thank you, Rio. A very Happy New Year to one and all on the call and thank you for joining in to discuss the financial results for the third quarter ended December 31st 2020. 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, Mindtree; Mr. Venu Lambu - Executive Director and President, Global Market, Mindtree; Mr. Dayapatra Nevatia - Executive Director and Chief Operating Officer, Mindtree and Mr. Vinit Teredesai - Chief Financial Officer, Mindtree.

We will begin the call with a brief overview of company's quarter 3 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 question 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 fraternity, request you to please disconnect as we just concluded our media briefing.

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 our quarterly fact sheet, which is available on our website. We do not undertake to update those statements periodically. I now pass it on to Debashis for his opening remarks.

**Debashis Chatterjee:** Thank you, Amisha. Good evening and good morning, to everyone on the call. Wishing you all a very Happy and Prosperous New Year. I trust all of you and your loved ones are safe and keeping well. The events of the past year have led to unprecedented changes and the emergence of a new normal. Technology has played a key enabling role here, be it with respect to enhancing customers' behaviors, digitizing and creating new business models or disrupting longstanding ones. Our strategic initiatives are resonating well with our clients and helping us in redefining possibilities together. We continue to calibrate the way we conduct our business, build on our core strengths to establish a stronger and more resilient organization. Our commitment to deliver superior client satisfaction, consistent and competitive profitable growth remains stronger than ever.

In Q3, we recorded revenue of US \$274.1 million, representing broad-based growth of 5% quarter-on-quarter. EBITDA was 23.1%, an expansion of 350 basis points sequentially. For the quarter, our order book of US \$312 million represents 51% year-over-year growth. For the 9 months of this financial year, I am pleased to report our order book has crossed the US\$ 1 billion mark. We launched several strategic initiatives during the pandemic to ensure the relevance of our offerings and meet our clients' needs. Help and Grow, one of the key initiatives, is helping us provide a targeted set of offerings that mirror the way clients have started to consume digital services in a post-pandemic world. As we know, the new normal requires businesses to be agile, embrace automation and contactless experiences, while keeping a sharp focus on security and seamless user experience to make it easier for both the user and the business to engage with each other.

In this regard, let me share a few projects we executed during the quarter. We helped a large hospitality chain bring an integrated contactless payment experience to their guests with the ability to detect and prevent possible payment frauds at the time of hotel room reservation. The solution was implemented in a record time and greatly appreciated by the hotel's guests as they could not check-in without exposing themselves to the health risks. We implemented an innovative medical procedure equipment tray management solution for a global medical solutions leader using SAP suite of technologies and cloud that is helping them plan, design and package trays 25% faster with more than 98% accuracy. For a large insurance company in the US, we implemented a fully automated enterprise B2B data exchange solution for payments processing, resulting in 80% savings in effort and significant cost savings.

In addition, we enabled access to real-time data that help to track and improve their business KPIs and SLAs. Aligning and strengthening our partner ecosystem, along with our offerings, is key to ensure we become a true transformation partner for our clients. In this journey, our recently announced investments to set up a Global Microsoft Azure Experience Center and collaborating with Databricks to offer advanced cloud-based data intelligence are critical steps towards having a constantly future-ready talent and market relevant services.

Before I share further inputs for the quarter, I would like to congratulate Mindtree Minds on continuing to exceed client's expectations in all areas despite the uncertainties of the year. The result of our recently concluded annual customer experience survey is a testament to their dedication, which continues to trend higher in response rate as well as in the satisfaction scores.

Now moving on to the financial highlights for the quarter, I am pleased to share our revenue of US \$274.1 million for the Q3 were broad-based with sequential growth across all industries, service lines and geographies. Communications, Media and Technology grew

5%. Retail, CPG and Manufacturing grew 5.8%. Banking, Financial and Insurance grew 0.8%. Travel, Transport and Hospitality grew 13% sequentially. Amongst the geographies, North America contributed 77%; Continental Europe, U.K. and Ireland contributed together 15%; and Asia Pacific 8% of the overall revenues. We are seeing very good traction across the 4 clearly defined service lines, whether it is the kind of deals we are pursuing or the conversations we are having with our clients.

With that, I would like to call out the revenue contribution from our service lines, Customer success 38%; data and intelligence 15%; cloud 19%; and enterprise IT 28%. We had several notable wins across industries. Let me touch upon a few. We have been chosen to drive the digital transformation journey of a leading global wind turbine manufacturer. As a part of this 5-year deal, Mindtree will simplify, modernize and transform the entire IT landscape of the client globally, while providing scalability to support the company's growth plans. We partnered with a large global airline as their strategic technology partner to enhance consumer experience on their mobile digital platforms. Mindtree will provide application development and maintenance services to enhance the features of the mobile application along with upgrading the underlying services layer. A world-leading sportswear brand selected Mindtree as their strategic partner for a multiyear engagement to provide application development services to accelerate their journey towards becoming product-led and outcome oriented.

We have been selected by a US-based diverse insurance and reinsurance provider to deliver enhanced efficiency and speed of business standardization through end-to-end IT infrastructure management and cloud services. In stressful times like these, we have continued to enhance our focus towards employee engagement to ensure their safety and wellness through multiple programs. We have also set up a dedicated hotline to provide support to Mindtree Minds and their families for hospital care and enhanced risk coverage insurance for COVID-19. Our efforts have been recognized by the Society of Human Resources Management, who conferred upon us the 2020 HR Excellence Award for best practices. We continue to onboard new hires on our digital platform and at the end of Q3, we had over 22,000 Mindtree Minds in the organization. We have honored all our offers to the campus minds and have been onboarding regularly in batches with the last batch getting onboarded next month.

We are also very happy to report we have completed our promotion cycle as planned and also delivering increments across the board effective January. We continue to witness an increase in learning hours and enthusiastic participation from Mindtree Minds in terms of reskilling themselves in emerging technologies. Our enhanced people engagement initiatives contributed in the reduction of attrition to 12.5% for the quarter from 13.8% in Q2. Social responsibility continues to be an integral part of our DNA. We aim to cultivate a responsible corporate culture and a balanced approach to business by addressing social

and environmental challenges. A few highlights are: in partnership with Radio City, we designed a program to motivate inmates of the Bangalore Central Prison, including 50 trained radio jockeys from 5,000 prison inmates to broadcast on special days. Mindtree, along with NCPEDP awarded individuals and organizations promoting equal employment opportunities and enabling work environment for people with special needs. Mindtree announced as a top performer with a score of A minus in the 2020 Climate Change ranking by Carbon Disclosure Project. Now let me pass on to my colleague, Vinit, who will share our financial highlights.

**Vinit Teredesai:**

Thank you, DC. Good evening, good morning to all of you. I wish all of you Happy and Prosperous 2021. It has been a robust quarter in terms of revenue growth across all verticals and service lines, strong margin expansion, healthy order book and a resilient balance sheet. Revenue growth of 5% in USD terms is the highest quarter 3 sequential growth in a decade. Our reported EBITDA margin for the quarter is at 23.1% compared to 19.6% in Q2. Again, this is the highest quarterly margin recorded in a decade. This clearly reaffirms our commitment to achieve and drive profitable growth. 350 basis points of improvement in the EBITDA margin is led by revenue growth and operational efficiencies. The effective tax rate for the quarter is at 26.6% as compared to 26.4% in second quarter. Net ForEx gain for the quarter is at US\$ 3.5 million. Profit after tax margins for the quarter is at 16.1% as compared to 13.2% in Q2. PAT in absolute terms is at US \$44.2 million, resulting into earnings per share of Rs. 19.80 paisa for the quarter as compared to Rs. 15.40 paisa in Q2. Strong collections during the quarter led to the reduction of the DSO by 4 days. For the quarter, the DSO now stands at 61 days. Our cash flow from operations continue to remain strong. For the quarter, EBITDA to operating cash flow is at 125.9% and to free cash flow is at 123.9%. Our utilization including trainees increased by 4.2% for the quarter, leading to 83.1%. Our contractual pricing for the quarter remains stable. Our order book for the quarter is at US \$312 million for quarter 3 and US \$1 billion for the first 9 months. As of 31st December, our cash flow hedges are at US \$1,043 million, hedges on balance sheet are at US \$81 million and options of US \$21 million. I now hand it over back to DC to cover on demand and outlook.

**Debashis Chatterjee:**

Thank you, Vinit. Our 4/4/4 strategy is resonating very well with our clients. We continue to witness strong demand across our focused service lines, industries and geographies. Our strategic investments in people, technology and partnerships are opening numerous opportunities for us to redefine possibilities for our clients. Our pipeline continues to be healthy and strong. Continuing our journey of profitable growth, we expect the growth momentum to continue in the coming quarters. I now pass this back to the operator to open up to questions.

**Moderator:**

Thank you very much. We will now begin the question and answer session. The first question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

**Sandip Agarwal:** Debashis, I have a couple of questions, while our top client has grown at 23% year-over-year in dollar terms again this quarter and 3.5% quarter-on-quarter, but we are seeing some kind of pulling off happening in the top client, is it a base impact? Or you see that hyperscalers are now more focused on getting the projects implemented versus selling more, so any light on that side will be very helpful? Second, will it be fair to assume that the margins we are right now is probably the margin which we should be able to defend and I am not asking for guidance, but I am just asking that there will be multiple levers, which will expand them going forward and multiple levers, which will impact some portion of cost? And also related question at 79 point something, we have 1,145 million hedges, so what does it mean for next 2-3 years in terms of the kind of safety we have on our margins? And finally, if you can answer that, if you see the last 5 years of the industry and the next 5 years of the industry, how much different it will be in terms of growth? And again, it is not specific to your company. I am not asking for any quantitative guidance on margin or revenue from you? So that is it?

**Debashis Chatterjee:** So lot of questions, Sandip. Okay. Let me start. As far as the top client is concerned, it is a very strategic relationship and we want to continue this relationship to grow further and further and it has grown this year and a little bit of aberration here and there could be seasonal, but at an overall level, our top client continues to grow, and we also continue to grow along with them and we are very optimistic that the kind of relationship and the kind of delivery that we have been doing for the top client, it is going to grow further. In terms of margin, yes, there will be always headwinds like, for example, we have announced that we will be doing increments across the board and there will be some headwinds because of that in the next quarter, but if you have been following our commentary, we have been always talking about profitable growth and we have also improved the margin by putting together certain specific programs, which are long-term programs. So by virtue of all these programs, which we have already put in place, I think it is fair to say that we are confident that we should be able to sustain the margin at 20 plus as we go into the next quarters and before I hand it over to Vinit on the hedges, I think in terms of the growth in the industry last 5 years and next 5 years, probably, the only thing I can say is that what has been driving the growth earlier and what will drive the growth in the future could be different, but from our perspective, we have ensured that we have a good strategy in place. We have very focused strategy and we are confident that if we execute the strategy, then we should be able to have a good industry-leading growth. So with that, let me hand it over to Vinit for the question on the hedges.

**Vinit Teredesai:** So Sandip, on hedging is our continuous strategy, so we hedge typically for a period of 36 months on an ongoing basis looking at exposures at different point of time. So that is the ongoing strategy and that will continue as we progress into the next quarters. So I hope that answers your question in terms of what does it mean. We are confident that any currency movement, we are well protected ourselves in terms of any volatility that can arise out of it.

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

**Shashi Bhushan:** Revenue trajectory for larger peers are stronger compared to ours despite much higher base. Is it an indication of a structural shift in the industry where in core transformational-led shift deals are taken by the companies with bigger balance sheet? And what are the few things that you think Mindtree needs at this point of time to get back to industry-leading growth?

**Debashis Chatterjee:** So Shashi, I think from our perspective, we feel that there are multiple drivers for growth. And we feel that where we are playing in terms of the 4 service lines that we have formed, if you look at the 4 service lines that we have formed, there is one service line, which is predominantly playing in the efficiency space and then there are 3 other service lines which are more in the change space, but we are able to participate seamlessly and also cross-sell our services across all these 4 service lines, be it a cost play or be it a revenue play for the client. So I think we are very confident that when you talk about the digital transformation, when you talk about customer success, then the data analytics, all these areas, I think we have an equal footing with respect to anybody else. I don't think there is any reason for us to believe that we are at a disadvantage over there. And in terms of what Mindtree needs, I think we are definitely going on building on our existing capabilities and we are also very keen at this point of time to look at inorganic as well as we go along. So that is what I would say and Venu is there. Venu, do you want to add anything?

**Venu Lambu:** Yes, sure, DC. The point is, if you actually look at our journey throughout the year after the COVID in a long-term, which had a significant impact on the Travel & Hospitality sector, so while that remained as it was in the first quarter, we actually grew on the other sectors significantly and thereby we still delivered 5% quarter-on-quarter this quarter. So I would only say that in the context of customer, the size of the vendor is not really one of the selection criteria. I think it is the competencies, it is the agility and speed and how do we connect the dots to drive end-to-end digital transformation. I think those are the things which we still continue to hear as the evaluation criteria, not really the size and scale as such, so that is how I put it.

**Shashi Bhushan:** Any qualitative or quantitative assessment of the deal pipeline where it was, say, 6 months back or a year back and where it is right now?

**Venu Lambu:** Sure. Actually, if you look at it in the beginning of the financial year, the focus was most of the spend that happened initially was more about how do we enable our customers and their entire ecosystem, which is employees, suppliers and their value chain to work remotely, efficiently and more productively, right. So that is the phase 1 of more of a reactive thing that happened as the crisis unfolded. But other 2 mandates that we carried as part of

our 4/4/4 strategy was, how do we help our customers to accelerate the digital transformation essentially to enhance the revenue play, right, how do we create more revenue avenues for our customers. So there is significant pipeline opportunities in that mandate, which could be in the form of digital engineering, development, product development and so on and so things, including things that we work on sales force and all that areas. The third is about cost take-out agenda, right, not just from a crisis point of view, but in general, cost take-out always is one of the important mandates that our customer expects us to support while the cost mandate driven by the means of modernization, by bringing aspects of cloud into that, so we see a pipeline, which is in that bracket as well. So in summary, we see pipelines which are essential to enable our customers' value chain, to work remotely efficiently and productively; the second is those digital engineering programs to enhance the revenue play of our customers; and the third one is essentially cost take-out, but focused around tech modernization, like cloud is one example. So that is how we see the pipeline fraction, Shashi.

**Shashi Bhushan:** How sticky is the margin improvement in the current quarter? I mean do we see this more on the structural stuff? Or do you think that there would be mean reversal back to a mid-teen kind of operating margin?

**Debashis Chatterjee:** So Shashi, as you know that we have been continuously doing cost optimization programs since last year, so we continue to see benefits out of that. You are seeing with the exception of first quarter, you are seeing there is a quarter-on-quarter growth that is coming in, which is helping us in managing our overall cost in a better way. Obviously, as we get into the next quarter, we have couple of headwinds in terms of the increments that have been announced, but our efforts on cost optimization and efficiency programs will continue. So net-net, we are confident that despite of the headwinds that are coming to us on Q4, we will be able to sustain our margins in the 20%-plus range.

**Moderator:** Thank you. The next question is from the line of Sudheer Guntupalli from ICICI Securities. Please go ahead.

**Sudheer Guntupalli:** DC, if you look at the margins, we understand there are some COVID-led benefits, which may not be fully sustainable in the new normal. Keeping that COVID variable aside and looking at just the company-specific changes that Mindtree had undertaken post you took charge, be it the change in portfolio mix, higher focus on annuity, rationalization of tail accounts, so on and so forth, if we were to factor in just these micro-level operating plus cost structure variables, what according to you will be the sustainable operational metrics, like utilizations or on-site/offshore? And subsequently, maybe if you can throw some color on margins?



**Debashis Chatterjee:** I mean, Sudheer, you cannot just pinpoint one and not the other and there are multiple levers that you look at when you talk about margin. It could be the ability to offshore, it is your pyramid, it is your utilization, all these things kind of play a role and that is why you need to have a program to drive all these things over a period of time, so that there is a rigor in terms of driving those metrics. So what you see over there in terms of margin, yes, definitely, there has been certain benefits in terms of which are COVID-led, but I think the significant improvement that you see is because of the processes that we put in place in terms of some of the levers, which we are monitoring and which we want to improve over a period of time. That is why you see the improvement in margin consistently over the several quarters that we have been reporting. So just to give you an example, all these things are available in the fact sheet, our utilization has gone up significantly. I mean, if you look at the utilization same time last year and the same quarter last year and the utilization this quarter, it is more than 7% improvement. Same way, there is a significant Improvement in terms of offshoring as well. So I think these are multiple initiatives that we are driving and that is the reason why it gives us the confidence that even if there are headwinds going forward and headwinds will always be there, but we are very confident that we can sustain the margin at 20 plus, which is what we have been talking about that we should be able to sustain the margin as we go forward.

**Sudheer Guntupalli:** Sure, sir and actually flip side of the previous question on why utilization shot up so much and why was our hiring during the quarter not so strong vis-à-vis, let us say, some other companies which reported so far? Does that in anyways reflect our, let us say, view on the demand visibility in the coming quarters, given that there is some time to market training, etc., involved when we hire people to cater to incremental demand?

**Debashis Chatterjee:** I think let me ask Dayapatra to answer that.

**Dayapatra Nevatia:** Sure, DC. So basically, what we did is we embarked on a very aggressive reskilling program a couple of quarters back because when the COVID hit, there was so much uncertainty around, we didn't want to add to our bench and hire aggressively, so we focused more on the reskilling of our employees and that has helped us tremendously in absorption of the bench and thereby improvement of utilization. However, having said that, now that our utilization has touched 83% plus, we have started aggressively hiring, both lateral as well as campus minds and the hiring in the last couple of months has accelerated quite significantly and that is how we see going forward into this quarter.

**Moderator:** Thank you. The next question is from the line of Manik Taneja from JM Financial. Please go ahead.

**Manik Taneja:** My question was related to what we have seen from a client metric standpoint, we have been cutting our long tail of accounts over the last probably 18-21 months, just wanted to

understand where are we in that journey? And the second question was related to the utilization rate, is there a structural shift to the sustainable level of utilization that we should think Mindtree can operate at going forward, given the fact that business has moved towards some higher offshore delivery?

**Debashis Chatterjee:** So let me talk on the client metrics, and then I will let Dayapatra comment on the utilization. So in terms of client metrics and long tail, this is something that I had articulated as a vision very early after I took over, in which I said that it is probably very important to look at the strategic clients and build stronger penetration into the strategic clients and it is better use of our overall bandwidth to manage a set of clients and not have a very long tail. And it is a journey that we embarked on, which was kind of slowed down during the pandemic a little bit because what we did not want is any of our clients to get impacted because we kind of don't support them during the pandemic, but having said that, we have almost, from a number of clients perspective, more than 20% of our tail is kind of taken out and this journey will continue. There is nothing like a fixed date or anything because we will continue the journey keeping in mind that none of our existing clients get impacted because of whatever we are doing. But it is very clear that we do want to focus in terms of the strategic clients and as we have done the rationalization of the long tail, we have never had any impact in terms of our revenues as well. So let me hand it over to the Dayapatra for the question on utilization.

**Dayapatra Nevatia:** Thanks, DC. So Manik, as you said, you alluded to, offshore percentage has definitely gone up in the last couple of quarters and a lot of that is as a result of the pandemic, where clients have seen that there is a huge possibility of work being done remotely and I clearly see that trend to continue going into next few quarters. So that has definitely helped and as I said in response to the previous question, we had taken aggressive reskilling through our digital learning platform, YORBIT and that has helped us reskill large population as well as absorb them onto the new demand. So that is reflected in the higher utilization. Having said that, given that, as DC alluded to, we have a healthy order book and our pipeline is very strong and as a result, we have started to hire aggressively in the last couple of months and that hiring is going to accelerate further in this quarter. All the campus minds, we have onboarded with the last batch coming onboard next month and therefore, we are very bullish about building the capacity and be able to absorb them onto the new deals. Therefore, utilization is going to be in the ballpark of 81% to 82% as we move forward.

**Manik Taneja:** And if I can chip in with 1 more question. DC, given the fact that pandemic essentially has established the offshore delivery model in a much more sustainable manner, should we expect that at some point of time we see the evolution towards a skill-based pricing rather than a location-based pricing that the industry has been used to in the past?

**Debashis Chatterjee:** Well, I think it is something that happens even now also, it is not something of the past, it is something that happens even now, but specifically, if you are talking about the delivery model, it will evolve and our view is that there will be a hybrid delivery model to support our clients, but exact definitions and all these things or exact nuances will be coming out in the coming quarters.

**Dayapatra Nevatia:** If I can just add to what DC said, Manik, clients are looking at more outcome-based pricing models and we have already seen the uptick in the more fixed-price outcome-based models and that reflection of the clients are not really concerned about where the people are based, as you rightly said, but they are looking at us delivering them specific outcomes.

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

**Vibhor Singhal:** So DC, I had a couple of questions. First is, we have seen strong growth rebounding back in the travel vertical in this quarter, what is the outlook in that sector look like there, I mean, in your conversations with the clients in that sector, when do you see probably demand coming back to that sector? And would it be fair to say that we have basically touched the bottom in that sector and from hereafter we should be able to see strong growth? Also, just maybe on the top client, we have seen, again, strong growth in that account for a long period of time, so just wanted to basically get your perspective on, does our strong relationship with our top client hamper our growth prospects with the competing hyperscalers and the cloud platforms in any manner? Have you seen any evidence of that till now? Or is that a concern going forward at all for us?

**Debashis Chatterjee:** So in terms of, let me answer the second question first and then come to the travel. As far as top client is concerned, we want the top client to grow and we want the relationship to be as strategic as it has been always. And I don't think there is any concern that we have in terms of growing any of the hyperscalers. We need to understand that there is a huge opportunity in terms of selling with our partners in terms of Azure or other hyperscaler clouds, and we will continue to do that. So I don't think there is any concern on that. In terms of travel vertical, yes, we had mentioned in the last call that we have not lost any clients in the travel. It did ramp down because of the clients' situation and we also talked about early green shoots in terms of some of the clients. So what you see over here is a reflection of some clients who are trying to come back with some of the initiatives they used to drive earlier, but I can say that it is too early to say in terms of when the full recovery will happen. I think we are still several quarters away in terms of a full-blown recovery, and the recovery will depend on how Travel & Hospitality is opened up in every geography across the world, but it is fair to say that probably we had reached the bottom.

**Vibhor Singhal:** But just to follow-up on my first question that you answered, what I meant to ask was, from the client side, do we see any inhibition from the clients, from the other high competing hyperscalers in basically partnering with us, given that they know our strong relationship with our top client?

**Debashis Chatterjee:** No, I don't think so. No. Not at all.

**Vibhor Singhal:** If I could just squeeze one more question for Vinit. Vinit, in the first half, we have seen a strong margin expansion that was primarily driven by lower SG&A and in the last 2 quarters, and especially in this quarter, we have seen a very strong gross margin expansion, which was largely led by a higher utilization. So do you believe on both the fronts, we have squeezed as much amount of, let us say, the levers that we could have? And going forward, I think the benefit, I mean, the tailwinds or the benefit from these levers could be very limited? Or do you still see some room in, let us say, either utilization or other expenses that could potentially negate the impact of, let us say, the salary hike or the travel costs coming back in the next year or so? So meaning to ask, is there still enough room in any of these levers that you see going forward?

**Vinit Teredesai:** So that is an ongoing process whereby we will continue to find out opportunities. There are a few programs for which there will be certain benefits that will be coming in. As I mentioned in our last call, we have now reached a stage of comfortable margin zone compared to how we have been performing historically. Now this is also a time for us to make investments into people, into technology, into domain expertise, so these are investments which will drive down some of this performance and also partly fund some of the efficiencies that will be coming in. Growth, an important lever for us that will continue to deliver us some extra margins on an ongoing basis. So net-net, we are confident of delivering and sustaining our margins in the trajectory of 20% plus, but on the way, there can be few ups and downs, which you need to factor in.

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

**Mohit Jain:** Sir, one is on the revenue outlook, like you mentioned about maintaining the momentum from 3Q onwards, but if I look at your Y-o-Y numbers, with the exception of top client, most of the numbers look down, so what is pulling up this momentum? And if you have any outlook to share on the enterprise side, especially BFSI and Travel & Hospitality, that would be great from a Y-o-Y perspective? And second is on the margins, 23% is what you delivered, so is there a one-off in the margins because you guys are guiding for 20% plus, which seems too low compared to the third quarter number?

**Debashis Chatterjee:** In terms of revenue outlook, if you look at the overall growth and if you look at geography-wise as well as industry-wise, it has been fairly broad-based and we are pretty confident that as we are looking at the deals that we have closed in the last quarter and as we do the ramp up, the pipeline is pretty healthy, the order book is pretty robust. Given all these things, we are very confident that we will continue to deliver profitable growth and the momentum will continue. In terms of specific client movements, yes, that can happen, but at a broad level, we are very confident that we will keep growing. I think I gave some commentary on Travel & Hospitality. We have got significant.

**Mohit Jain:** Right, sir, I was specifically referring to the clients within our top 2 because if I look at it from a Y-o-Y perspective, top 2 to 5 is also down, 6 to 10 is also down, so how do we retain?

**Debashis Chatterjee:** Probably what we should look at is look at the top 20 as well as look at the growth that we are having beyond that as well, so when you talk about mining the strategy accounts, we have a plan in place to mine all the accounts beyond that as well.

**Mohit Jain:** So by when do you expect Travel vertical revenue to sort of regain where we were, like 12 months, 18 months? Is there any outlook you can share there?

**Debashis Chatterjee:** No, I think as far as if you look at even within the top 2 to 5, this is the last 12 months. Another thing you have to understand is that there were quite a few travel clients within that. So those travel clients would have significantly come down because of the impact of COVID. So now that impact of COVID will kind of reduce a little bit and I think there will be some changes that you will see as we go along. Venu, do you want to add anything?

**Venu Lambu:** Yes, just want to add the commentary. This is Venu here. I just want to add the commentary that if you look at it, especially in those segments or accounts that we called out, where year-on-year, its de-growth, that is predominantly the impact that we have been speaking since Q1 when a lot of these clients actually ramped down in the Travel & Hospitality sectors, right, so while we are having a quarter-on-quarter of 13%, the top clients, which actually ramped down in Q1 are not really showing a big appetite for spend yet, right? So that is why you see a contradictory of a growth percentage being double-digit and then your top 3-4 clients are not showing the growth.

**Debashis Chatterjee:** So on the margin front, I mean, the commentary that we have made earlier as well is that we wanted to take the margin to a comfortable band and also sustain the margin. So when you said 20 plus percent, we did not really put a number over there. All that I can say is that we are very confident that we can sustain the margin 20% plus and you have to also appreciate that we will be making some investments to drive the growth. So that is why we keep using the word profitable growth and there will be headwinds. There will be headwinds in the next quarter because we are doing all the increments and all these things, but overall,

I think it is fair to say that we have reached a band where we should have the ability to invest and grow, at the same time sustain a band of margin as we go along. Do you want to add anything here?

**Mohit Jain:** So no one-offs in third quarter?

**Vinit Teredesai:** There are no one-offs in the third quarter.

**Mohit Jain:** Provisions written back, anything of that sort?

**Vinit Teredesai:** Nothing of that sort and as DC mentioned, what we are trying to articulate is the sustainability of our margins on a quarter-on-quarter basis. We are not sort of giving any outlook for the next quarter as you think. What we are saying is, we will have headwinds, we will be making investments on the way, but after considering all of that put together, quarter-on-quarter basis, we are confident of sustaining the 20% margin back.

**Moderator:** Thank you. The next question is from the line of Sulabh Govila from Morgan Stanley. Please go ahead.

**Sulabh Govila:** I have a couple of questions. So first one is for Vinit. Between your employee expenses, what would be the reason for wages and salaries going down sequentially this quarter and contribution to PF line item increasing because ideally one would imagine, of course, like contribution to PF to remain largely in line with the changes in employee base and salary increases? And the other bit that I wanted to touch upon is on industry growth that we are talking about. Given that in the coming year, the definition of industry growth is probably changing relative to pre-COVID levels and coupled with the fact that some of the large cap names, they are already talking about double-digit growth rates, how should we think about Mindtree achieving that in the context of deal wins that we have seen in the past 2 quarters? And would we need to increase these wins in the coming quarters? Or we can aim to achieve the industry-leading growth rate with current run rate as well?

**Debashis Chatterjee:** Yes, let me take the second question first, and then I will hand it over to Vinit. See, as I said, I mean, our order book is pretty robust, pipeline is very healthy and the deals that we have signed in the last quarter, they are all kind of ramping up. We hope to close more deals in the coming quarter and the next quarter, so on and so forth and our focus is to drive the profitable growth. So there is no reason for us to believe that we all cannot deliver industry-leading growth as we go along and the growth momentum will continue in the coming quarters as well. Vinit, do you want to take?

**Vinit Teredesai:** Yes. See, on a cost of employee, I think if you look at it, our net addition of people have been minimal because as Dayapatra mentioned in his comments, we have been reskilling

our resources and deploying them, and that has helped us in terms of increasing our utilization and helping us in terms of growing our margins. On provident fund, I don't think so it is anything unique that has happened. I think so it is a contribution that happens on a quarter-on-quarter basis depending upon certain employee selection of plans, etc., but there is nothing specific to talk about on that particular front.

**Sulabh Govila:** That is very helpful. If I can quickly slip another one, please, so this is with respect to wallet share gains that you have talked about in the past few quarters in some of your existing accounts, so in your view, what would be the sort of companies who are losing market share there? Would these be the niche boutique startups? Or there would be companies similar to or larger to your size as well? And then related to that on the tail end of your client rationalization, so in what all buckets is this rationalization taking place? Because we have seen the \$5 million bucket declining in the past couple of quarters and then there is some decline in \$10 million bucket also in this quarter?

**Debashis Chatterjee:** No, I don't think, you asked a lot of questions. Let me answer the \$5 million, \$10 million bucket whatever clients what you see over there in terms of that is basically the fact is that many of our travel clients, who are part of that bucket, the full impact of COVID is now reflected because it is kind of more than 12 months now. It is last 12 months data. So that is what you see, but if you talk about specifically with respect to the tail rationalization, that is something which we have been running as a program. We almost rationalized almost 20% of the long tail, but we also said that we will only do it at the convenience of the client, and we will never have a disruption. It should also not impact our revenues. And during COVID, it did slowdown because many of our clients, we didn't want them to be inconvenienced by saying that we just don't want to support them, but the program continues and the journey continues. Our focus is still the same. We will continue to build deeper relationship with our strategic clients, so that we invest more energy in nurturing a smaller set of clients rather than a larger set of clients. I don't know what was the first question, I forgot.

**Venu Lambu:** DC, that was on wallet share.

**Debashis Chatterjee:** Do you want to take it, Venu?

**Venu Lambu:** Yes, I will take that, DC. So actually, if you look at the accounts where we have seen a growth, and essentially, we have increased the wallet share with a combination of both, right, so where the spent of some of the tier 1 companies have also shifted to us. It may be because there are certain specific area of service lines where our competency was seen and it is much significant in that context. So hence, there is that consolidation of wallet share that happened. The second is also, there are a lot of vendors who were built up in the pre-COVID levels in any enterprise. So when they look at the consolidation, which are fairly

disparaged, that comes to the different flavors, right, the tier 2, tier 3 start-ups as well as some of the large established corporations as well. So it has come with a combination of both, but most of the time, it is driven with the consolidation for a particular competency rather than the size or the scale.

**Moderator:** Thank you. The next question is from the line of Rishi Jhunjunwala from IIFL. Please go ahead.

**Rishi Jhunjunwala:** So on profitable growth, so as you mentioned that our margins are now probably industry-leading, however, growth is where we have kind of lagged over the past year or so, just wanted to get some more understanding in terms of do you feel better to be industry leading on the growth side and while still maintain margins, which are similar to where peers are and as a result, increase overall investments? Or do you think that we can maintain a fairly elevated profitability and still want to maintain growth, which is in line with the industry? What would be your preference?

**Debashis Chatterjee:** No. I think, first of all, we did not talk about industry leading in terms of margin. What we said is that we do want to have industry-leading growth, but also want to maintain the profitability to a band which is comfortable so that we can continue to do the investments as we sustain the margin. So that is what we have been saying and as we said, in terms of investments, there are multiple things that we are doing and we are also very open to inorganic at this point of time, so we have been having a very clear strategy to look at inorganic. So that also is something that will follow hopefully in the coming quarters.

**Rishi Jhunjunwala:** And secondly, on the nature of deals that we have announced over the past 3-4 quarters, can you give some color in terms of how much of that would be new business? And one of the reasons why I am asking this also is because like right now year-on-year, we are still largely flat, but there has been almost a 25% revenue shift from your revenues being in material to being fixed price, so fixed price component has gone up significantly higher. So has that been a function of substantially high renewals, which is also reflecting in our deal wins? Or we still have a fairly balanced mix of new versus existing business?

**Debashis Chatterjee:** So we have a fairly good balance of new, as you can see that in every quarter, we are adding a set of new logos and when we are adding these new logos, I think there is a very clear strategies to go after strategic clients and strategic logos, so that we can build it out. And I would say that at this point of time, we have to also appreciate that the growth that you see in the last 2 quarters, one of the industries have not really grown. So a lot of growth has happened in the other industries instead of travel for that. I mean, Travel, there are green shoots, but bulk of the growth has happened in the other industries. So essentially, we are in a very comfortable position. We see the nature of deals, if you ask me, is aligned to our overall service line strategy. We see a lot of deals, which are in the areas of customer



success, data and cloud and also there are some cost takeouts also where we are able to participate, but there is a great opportunity for us to work with our clients, and we can provide the end-to-end services across the 4 service lines. So that is how we see the deals and the pipeline looks pretty good, and it is a good combination of existing as well as new logos and new deals. Venu, do you want to add anything?

**Venu Lambu:** No, DC. I think you have pretty much covered and even in the script that DC spoke about at the beginning of the call and if you look at those 4 deals that were mentioned, they are fairly strategic in the nature in the sense there are new engagements, new customers, more focused towards multiyear kind of engagements and we did announce a couple of them over the last month or so, which are multiyear contracts as well.

**Moderator:** Thank you. The next question is from the line of Dipesh Mehta from Emkay Global. Please go ahead.

**Dipesh Mehta:** Two questions from my side. First, DC, can you help us provide some progress what we made on growing our annuity revenue? How it is shaping up over the last few quarters? And whether we have witnessed any change in deal tenure? So if you look, let us say, \$1 billion, what we are seeing for 9 months, any change in deal tenure vis-à-vis maybe last year or past couple of years? Second question for Vinit, if you look this quarter, some provision for provident fund is there in note number 34F? If one adjusts for it, this quarter Q-o-Q margin expenses is almost 650 to 700 basis points, so it is almost 26.3% if when adjusted for the provision, which is, in my opinion, seems to be exceptional, so from 26% what we delivered this quarter, how one should look your margin trajectory Q4 as well as next year?

**Debashis Chatterjee:** So Dipesh, I would say, the kind of deals that we are signing are fairly multiyear tenure deals. In fact, I would say, compared to similar time last year, when we started talking about annuity and multiyear deals, we had just started the journey, but at this point of time, many of the deals that we have been signing are definitely multiyear because there is a tremendous focus in terms of the team to get into engagements, which are multiyear engagements, which kind of give you sort of annuity over a period of time. I may not be able to call out specific numbers right now, but we are very happy with the progress that we have made in terms of our journey to create more and more multiyear deals. Vinit, do you want to take the next question?

**Vinit Teredesai:** Yes. So again, I mentioned this about in my earlier comment that it is not that there is anything exceptional that has happened. I think so that is not the way you should be reading it because there are always some ups and some downs that typically happen in our P&L. What we are saying is that, yes, that expansion has happened, but we will be also making investments on the way we have headwinds on account of increments coming up in the next quarter. So on an ongoing basis, our story will continue to deliver our sustainable margins

of 20% plus. That is what you should look at. We are not talking about a specific quarter performance. You should look at it on an ongoing basis what is the confidence of management looking at.

**Dipesh Mehta:** No, that is fair, Vinit, because it is substantially expanded, we just want to understand what played out. Now that gives us some clue about how it should because 20 what you are indicating versus where you is 26 adjusted for one-off, so there is a big gap and that is why I just want to probe further to get some better clarity how one should understand it?

**Vinit Teredesai:** So that you should not, first of all, consider it as a one-off, as we said in our earlier comment that there is a growth that has come in. This is a completely organic growth, you should look at it. We are growing up in terms of our utilization. Earlier, our hiring was limited in the first quarter. Now we are looking at making incremental hiring in the coming quarters. So all that put together, you will see some headwinds coming in and that is why we are saying and we want to make these investments on an ongoing basis. So I think so you should not look at that as a one-off. You should look at it more from a sustainability perspective.

**Moderator:** Thank you. The next question is from the line of Girish Pai from Nirmal Bang. Please go ahead.

**Girish Pai:** I have a couple of questions. DC, you may have probably given price concessions at the start of the pandemic, have all of those been reversed? That is point number one? Second, I recall you making a comment either in the analyst meet or probably in the 2Q call that you have a healthy pipeline, and you are looking forward to a faster conversion going forward, when do you think that is going to happen?

**Debashis Chatterjee:** So first of all, in terms of, I don't think we have given any specific price concessions per se. There were some deferred billing and all those things, but all those things are kind of behind us at this point of time and that is to specifically with clients who themselves had very difficult situation in the Travel & Hospitality, especially during the pandemic, so that is all behind us. And what was the next question?

**Amisha Munvar:** Deal conversions.

**Debashis Chatterjee:** So as far as deal conversions are concerned, there are 2 patterns. One is, if you are talking about large transformation deals or consolidations, it kind of takes a little bit of time. I think this is where I think there is a little bit of delay, but if there are some deals where customers are trying to do something for their customers, those things are happening pretty fast, like in the areas of sales force, in customer success or in the area of moving into cloud, those things are happening pretty fast. So overall, yes, there may be a delay in conversions based on the specific deals, but we are pretty happy with the way we have managed to convert

and create a healthy pipeline and that is why you see first 3 quarters of the financial year, we have more than a \$1 billion order book.

**Girish Pai:** One last question, if I may squeeze in. This promotions and salary increase that you are expecting, you are giving from 1st of January, what could be the impact of that in 4Q? Can you just kind of quantify that, if you can?

**Debashis Chatterjee:** I will let Vinit answer that. First of all, I mean, before Vinit says, I think you need to understand that from a people perspective, we had promised that we will do the promotions as per our plans. We also announced much earlier that the increments will be across the board effective January, so all those things are in place, and that is something, which we are very clear that we have to take care of our people as well, our Mindtree Minds. Specific impact, let Vinit add.

**Vinit Teredesai:** So from an increment perspective, we will be doing an industry average increment with the leading companies. We expect the impact to be somewhere around close to 250 basis points, but we also have few operational efficiencies still continuing to deliver some benefits to us. So we think that we will be able to absorb a great extent of that impact in the next quarter.

**Moderator:** We will be able to take one last question. We will take the last question from the line of Madhu Babu from Canara HSBC Life. Please go ahead.

**Madhu Babu:** So even this year, I think the top accounts will grow almost 28% Y-o-Y, whereas overall will be flattish, so could you give us more, how are we in the positioning within the top client? I mean, we are among the 6th or the top 10th like that? And second is that how many decision makers we are dealing with there within those so that we can break the top account as more into multiple P&Ls? So just more view on that would be helpful?

**Debashis Chatterjee:** So Madhu Babu, the only thing I can say is that the top client is very special for us. It will not grow the way it has grown unless we are delivering well for the client as well because they have got many options and we probably are definitely one of their strategic partners as well and in terms of decision-making, more than talking about decision-making, what you have to understand is that we are working on various areas within the top client. It is not that we are working on only one specific area. So there are many stakeholders that we are working on within the top client, which also kind of gives an indication that it kind of derisks us because it is not that we are just in one area and that can just go away. It is multiple areas and we are well spread across the top client in terms of their multiple LOBs and businesses. Venu, do you want to add anything?

- Venu Lambu:** Yes, DC. Just 2 comments. What is important to understand is that it is a big universe when we look at the market and the different buyers that are there with top clients and they are in the forefront of this digital evolution, which will only accelerate as we go along. So hence, it is strategic, as DC mentioned, and plus it is not just one particular product or one particular buyer, it is a big universe and we are strategically positioned to ensure that we cover all the market segments of our top clients across all geographies.
- Madhu Babu:** And just one more on employee transfer deals, which have been the norm now in these last 6 months, whether the tier 1 vendors are taking large deals, so are there any deals in our pipeline where we have a decent employee takeover? And what could be the limit where you would look at this option?
- Debashis Chatterjee:** Yes. I can say that without getting into specifics, we are also very open and amenable to employee takeovers as well as inorganic as we go along. Beyond that, I don't want to call out any specifics, but we are very open at this point of time.
- 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 Chatterjee for closing comments.
- Debashis Chatterjee:** Thank you, everybody for joining this call. Just in closing, our strategy continues to deliver desired outcomes quarter-over-quarter on all fronts by building on existing strengths and realigning our capabilities, we are creating further competitive advantage for our clients. Our strong results of 5% quarter-on-quarter revenue growth, 350 basis points of margin expansion quarter-on-quarter and an accelerated order book growth of 51% year-over-year reflect the strength of our disciplined execution. We will continue to be the go-to partner for digital transformation for our clients. Continuing our journey of profitable growth, we expect the growth momentum to continue in the coming quarters as well. Thank you, stay safe and be in good health.
- Amisha Munvar:** Thank you, everyone for joining the call. It is always a pleasure to connect with you, and we all look forward to speaking with you in the coming months during the quarter. Stay safe, and have a good 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.