

Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of Earnings Conference Call

Third quarter ended December 31, 2021

January 13, 2022

Moderator: Ladies and gentlemen, good day and welcome to the Mindtree Limited quarter 3, FY22 earnings conference call. Please note, all participants' line will be in the listen only mode and there will be an opportunity for you to ask questions after the opening remarks. Should you need assistance during the conference call, please raise your hand from participants tab on your screen. Please note that this conference is being recorded. I now hand over to Mr. Vinay Kalingara. Thank you and over to you.

Vinay Kalingara: Thanks Aditya. Welcome to this conference call to discuss the financial results for the third quarter ended December 31, 2021. 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 Markets, Mindtree. and Mr. Vineet Teredesai, Chief Financial Officer, Mindtree. We will begin with a brief overview of the company's Q3 FY22 performance, after which we will open the floor for Q&A.

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 as we see today and are subject to risks and uncertainties as described in the company's earnings release. We do not undertake to update those statements periodically. I now pass it on to DC for his opening remarks.

Debashis Chatterjee: Thank you, Vinay. Good evening and good morning to everyone on the call. Thank you for joining us. Wish you and your families and your colleagues, a very happy and prosperous 2022. I hope all of you are staying safe and healthy. We are pleased to report strong revenue of USD 366.4 million, sequentially up 5.2% in constant currency, in what is a seasonally soft quarter because of furloughs and holidays. In USD terms, our revenue grew 4.7% sequentially and 33.7% year over year in the third quarter. Our order book comprising a healthy mix of annuity and transformational deals stood at USD 358 million up 14.6% year over year taking our year-to-date TCv to more than USD 1.2 billion. Our EBITDA margin, a measure of our operational rigor and efficiency came in at a healthy 21.5%. Profit after tax for the first 9 months of FY22 stood at USD 158.8 million, exceeding the PAT for the entire FY21.

Our revenue growth momentum not only validates the disciplined execution of our strategy, but also speaks to the broad-based secular demand for our digital transformation offerings. Our sharp focus on four service lines as a part of our 4x4x4 strategy has helped us build integrated capabilities necessary for digital transformation at scale. Such transformation is iterative and delivered over multiple sprints. We are therefore seeing an increasing number of deals come with a long tail of growth, evolving into larger strategic engagements. This is evident in the growth of our accounts.

For example, when one of the world's leading sportswear manufacturers embarked on a journey to become a connected company for delivering personalized customer experiences across all physical and digital touchpoints, they chose us as a strategic partner. Though the engagement began with data and quality engineering services, we are today driving a range of

highly complex and mission critical digital transformation initiatives for the company. We are redesigning the company's ecommerce platform and digitalizing its value chain by leveraging diverse capabilities. These include core modernization, ecommerce and digital marketing, experience design, data analytics, artificial intelligence, cloud, automation, and digital security. The goal is for the company to stay ahead of changing customer behavior and market demands by adopting a data driven direct-to-consumer model.

In the case of a global consumer durables company, our role as a digital experience partner has quickly expanded across capabilities ranging from digital commerce and marketing to devops, cloud and automation. As part of the outcome-based engagement, we are today responsible for delivering direct-to-consumer ecommerce applications across 18 global markets. Through our integrated capabilities we are able to deliver faster deployment and robust performance, even through peak demand periods that see over a million orders a week. For a large insurance major, migrating its customer policy system to the cloud, we developed templates to model, provision and manage cloud assets, substantially reducing the time and cost of migration. We also migrated their customer data aggregation platform to a cloud-based data lake. As part of this transformation initiative, we leveraged our integrated capabilities across Cloud, Data and Enterprise IT service lines.

Let me now provide some color on the growth of various industry segments. Our Communications, Media and Technology business grew 6.1% sequentially and 24.5% year over year. We are helping Communications Service Providers and Original Equipment Manufacturers to accelerate the roll-out of their 5G offerings, IOT platforms and Edge devices. We are enabling Information, Media and Entertainment companies to digitalize their content chains and scale direct-to-consumer platforms. And we are partnering with Technology companies to help them engineer, implement and support innovative and intuitive products.

In the quarter, one of the world's largest technology companies, selected us as a preferred supplier for product engineering and cloud professional services to enable it to scale even faster. A fast-growing US based technology company chose us to provide product engineering services to accelerate time to market. One of the leading global hyperscalers have signed an annuity contract with us as a part of which we will support product and platform operations and provide security services across geographies. Our strategy accounts in this sector have grown significantly and we continue to sign on and scale new logos.

Our Retail, CPG and Manufacturing grew marginally quarter on quarter, following a very strong Q2 and grew 51.7% year on year. We are seeing good traction in consumer experience, core modernization, supply chain transformation, smart factory solutions and intelligent enterprise resource planning. Connected experiences have gained prominence as a result of a long-drawn pandemic. This is driving the need for connected products, factories, operations, employees, and supply chains to deliver real-time insights that can be leveraged for better productivity, supply chain fulfilment and customer service. Connected ecosystems are also providing impetus to our IOT and Edge computing offerings.

In the run-up to its digital factory initiatives, we were selected as a partner by a global automotive manufacturer, to transform its applications portfolio leveraging Mindtree NxT capabilities. We signed an annuity contract with one of the largest home improvement retailers

in the US to support agile-based application development and maintenance. We were also selected for a digital transformation program by an Australian online automotive marketplace. Our Banking, Financial services and Insurance business grew 4.2% sequentially and 19.4% year over year, hitting an annualized revenue run rate of USD 250 million. Customers in this sector are increasingly driven by the need to realign technology portfolios, accelerate adoption of future technologies, modernize legacy infrastructure, and reimagine channel strategies. During this quarter, a large credit reporting agency selected us to build a specialty finance platform that helped it drive rapid growth through differentiated data assets and new products. We were selected by leading credit card provider in the US as a transformation partner across multiple service lines, while a leading US fintech company chose us to modernize its core banking platform. A leading indexed annuity carrier in the US selected us as a strategic partner to accelerate the development of new channels and elevate the customer service organization through superior digital experiences.

Coming to our Travel, Transportation and Hospitality business, we crossed USD 200 million revenue run rate this quarter growing 7.4% sequentially and 56.4% year over year. Revenues from this business are at pre-pandemic levels and we continue to be deeply involved in key transformation initiatives at our customers and expanding our strategic footprint with them. Our relationship with one of the major American airlines is a case in point. It began with a quality assurance program. Today we are working with them to optimize and transform their network operations to significantly reduce the resolution time for choke points, thus providing superior passenger experience. We were selected as a strategic partner by a global vacation company to create competitive differentiation in the leisure travel segment by transforming customer engagement across marketing, sales and services, for all its brands globally. Our strategy to diversify beyond the airline and hospitality sectors is yielding good results. We won deals with a rail company in the UK and a fast-casual restaurant chain in the US. For a major Europe-based travel technology company, we are developing a platform that will enable its partners to manage its properties more effectively and respond quickly to changing customer needs. We are helping a global real estate franchise and brokerage service provider, and a global provider of mobility solutions to reimagine their services portfolio and market positioning through data-led technology transformation.

Healthcare, our youngest industry group contributed USD 4.8 million to our revenue. During the quarter we expanded our engagement with a US-based managed healthcare and insurance company. We are advising the company on transforming its legacy system around order intake and supply chain processes into a cloud-first digital native ecosystem to accelerate growth and optimize costs. We continue to synergize our service line capabilities, for accelerating growth in the healthcare market.

In terms of geographies, North America contributed 73%, Continental Europe, UK and Ireland contributed 18.6%, and APAC and Middle East contributed 8.4% of our revenue during the quarter. Among our service lines, Customer Success contributed 42.9%, Data and Intelligence contributed 14.8%, Cloud contributed 19.1% and Enterprise IT contributed 23.2% of our revenue for the quarter.

We won one of the largest Data and Intelligence deals this quarter. It involves delivering business finance performance management services to the CFO organization in a leading accounting and advisory organization. In the cloud space, we won 10 deals this quarter on the back of a significantly expanded relationship with a hyperscaler. We are partnering with one of the largest financial services and payment software companies as a Managed Service Partner for its payment solutions, providing banks with an end-to-end Payment-as-a-Service offering, initially focused on the Nordics, the UK and Ireland.

Industry and partner recognitions continued to validate our capabilities and experience. We were named a Major Contender in Everest Group's 2022 PEAK Matrix® Assessments for Mainframe Services, Advanced Analytics and Insights, IoT Services Supply Chain Solutions, and Platform IT Banking Services. We also earned the AI and Machine Learning on Microsoft Azure Advanced Specialization.

Our ability to bring innovative ideas and future-ready talent to support rapidly evolving transformation needs is what differentiates us. We are reorganizing ourselves to turn this differentiation into an even stronger competitive advantage. As a part of our ongoing endeavor, to sharpen our strategic focus, operational agility, and customer value, we elevated senior Mindtree executives to larger roles this quarter. Radhakrishnan Rajagopalan was appointed as company's Global Head for Technology Services and Suresh HP took on the role of Global Delivery Head.

As we enter the next phase of growth, we are strengthening our employee value proposition by driving a talent mindset across the organization and making talent an integral part of the organizational fabric. An important step in this direction is to bring the entire employee lifecycle, ranging from outreach and recruitment to career development, under an integrated talent function. To lead our integrated talent program, we welcome Suresh Bethavandu this quarter, as the company's Chief People Officer. We also named Paneesh Rao as our Global Sustainability Head to drive our enhanced ESG Commitment.

We are continually building upon our highly engaged people-centric culture aligned with our work ethos focused on Purpose, Caring, Learning and Delivering Results. We onboarded more than 4,500 Mindtree minds this quarter, taking our global headcount to more than 31,900. For the quarter our LTM attrition was 21.9%.

To meet the growing client demand for our services, we have reenergized our recruitment engine. We are not only on track to meet our aggressive hiring targets for FY22, but also expect to significantly increase hiring in the coming quarters. As part of our 'Work of the Future' talent strategy, we are also tapping into tier 2 and tier 3 cities and setting up offices in Coimbatore and Warangal. With a rejuvenated campus hiring program, we expect our hiring momentum from campuses to increase by 40 to 50% through FY23. Mindtree Edge, our unique learn-and-earn program for BSc and BCA graduates continues to progress as planned.

By remodeling and strengthening our flagship training program for fresh graduate hires, we have been able to accelerate fresher's deployment to client projects. The broad range of career and development opportunities resulting from our growing and diverse client, technology and geographical footprint, makes us an attractive employer. The power of our brand is also reflected in the sustained success of our employee referral programs. Our focus continues to

be on complementing external hiring with internal talent development. During the quarter external certifications were 50% more than those in the preceding quarter. Measures such as redefined career framework, and role rotations continued to facilitate more effective career enablement.

I will now turn over the call to Vinit for Q3 financial highlights. Vinit.

Vinit Teredesai:

Thank you, DC. Good evening and good morning to everyone on the call. Our strong financial performance in the third quarter validates the strength and continuous execution of our strategy. This is the fourth consecutive quarter of 5% plus revenue growth in constant currency terms. Despite seasonal headwinds this quarter, we grew all dimensions of our business and delivered strong EBITDA margin while continuing to invest in our business. In line with our endeavor to maintain 20% plus EBITDA margin, we reported EBITDA margin at 21.5% this quarter compared to 20.5% in Q2 FY22. 100 basis points increase in EBITDA margins over the prior quarter was due to 60 basis points from business growth and operational efficiency and 40 basis points due to currency movements.

Our reported EBIT margin for the quarter was 19.2% compared to 18.2% in the preceding quarter. The effective tax rate for the quarter was 25.5% as compared to 25% in Q2 FY22. Net forex gain for the quarter was 5.5 million US dollars. Profit-after-tax margin for the quarter was 15.9% as compared to 15.4% in the previous quarter. PAT in absolute terms grew by 32.1% year on year to 58.3 million USD. Earnings per share was Rs. 26.50 for the quarter as compared to Rs. 24.20 in Q2. Our DSO for the quarter stood at 64 days. Our cash and investment balances were at an all-time high of 412.7 million USD. For the quarter operating cash flow to EBITDA improved significantly to 87.7% versus 63.6% in the previous quarter. Free cash flow to EBITDA was at 77.6% versus 52.6% in the previous quarter. Annualized return on capital employed for the quarter was 44.5%. Return on equity for the quarter was 36.2%. Our utilization in the quarter was 81.5% compared to 82.9% in Q2. Our contractual pricing for the quarter remains stable. As of December 31st 2021, our cash flow hedges were at 1,509 million USD. Hedges on the balance sheet were 145 million USD and options of 9 million USD. I now hand it back to DC for the business outlook.

Debashis Chatterjee:

Thank you Vinit. The demand environment for our integrated capabilities continues to be robust. Digital transformation and hyper-personalization remained high strategic priorities for our customers and continue to merit a significant proportion of technology spends. These investments are largely independent of market cycles and being driven by long-term strategic imperatives around delivering modern enterprise architecture, resilient infrastructure, scalable digital-ready foundation and innovative experiences. While it is too early to predict the impact of the evolving pandemic situation, we remain confident that our strategy of growing existing relationships, diversifying our customer mix and strengthening industry partnerships will continue to deliver meaningful results. Customers are looking for speed and agility in reaching the end state of their digital initiatives faster than planned. They are looking for flexible, nimble and transformation-first partners who can help them scale and scale fast. This is where we

have an edge. We are confident in our ability to sustain our strong momentum and our endeavor is to continue to deliver industry-leading profitable growth.

With that, let me open the floor for questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Anyone who wishes to ask a question may raise your hand from participants tab on your screen. Participants are requested to use headphone or earphone while asking a question. Ladies and gentlemen, we will wait for a moment while the question queue assembles.
First question is from the Vibhor Singhal.

Vibhor Singhal: Hello sir, thanks for taking my questions and congrats on a great performance yet again. DC, my question was on the demand environment and the deal flow. We are hearing a lot about large deals being broken up into small parts by a lot of clients, and as you also mentioned that clients are looking for nimble footed kind of vendors who can turn around things quickly. So how does that basically help us? I mean, we being in that sweet spot in terms of our size, we should be able to basically garner a large market share in that sense of those deal flow. But our deal flow has been kind of stable, I would say for the past 2-3 quarters, not a very strong jump that we are looking at. So how do you see this evolving in terms of translating into higher deal flow for us in the coming quarters?

Debashis Chatterjee: Thank you Vibhor. So let me just start and then I will request my colleague Venu also to add on. See as far as the deals are concerned, the nature of digital transformation deals is more of iterative and very short cycles. So essentially what happens that, when you are selected as a partner, you are governed under an overall master service - MSA, but then you will be doing projects one after another. And, once you start working on the projects and the needs are developing for the clients, you continue to build that relationship and that relationship also becomes bigger and bigger. So, though you may not be able to see a pipeline in the form of a multi-year kind of a thing to start with, but the deals eventually translate into a multi-year initiative and engagement. The deals will come in terms of iterations. So that is the way it is working. And the good news is that, at this point of time, if you look at the strategy that we have adopted - the four service lines; Customer Success, Data, Cloud and Enterprise IT, you need all these four capabilities, very strongly, to provide the integrated capability to any of the clients. In some of the prepared remarks that you heard, lot of opportunities where we are actually supporting our clients across multiple service lines, which is very important because if you have that capability, then only you can participate in these iterative deals, and these smaller sized deals, and you know that there will be something that will follow.

Venu you want to add anything?

Venu Lambu: Yeah. Just additional commentary that when you apply these requirements in the context of the sectors that we address, we are essentially trying to address the revenue maximization mandate of our customers, right? So hence the opportunity that is visible for us to go after is huge. As our client's revenue increases, because that is why people want to do digital transformation, so that they can enhance customer experience, they can build some good insight, use cloud as a catalyst and so on. Since it is pretty much tagged to the client's revenue maximization mandate, unlike the run mandate which has got a fixed budget and a declining budget, I think this budget will increase in line with the customer's changing revenue pattern. So, it is a great opportunity for us to be there. Though it is shorter and iterative in nature, the sprints are numerous. So hence it is a great opportunity for us to grow with that trend.

Vibhor Singhal: So if I understand it correctly, we are trying to say that maybe this entire deal flow or the strong demand environment might not be reflecting in the deal flow absolute number that we report. But in the next few quarters, I think the revenue maximization part of that should definitely translate into higher revenues for us?

Venu Lambu: That is correct.

Vibhor Singhal: Okay, sure. My next question was to Vinit. Vinit, I think we have had very strong margin expansion. I think we are continuously surprising on margins front, every quarter after quarter. So, if I just look at the margins profile of this quarter, I think our gross margin level also expanded and we now are well above 40% in terms of gross margins. And there was also almost a 70 basis point benefit from lower subcontracting costs. So I think subcontracting cost as a percentage of revenue has come down from I think, 11.5% at the peak to now less than 10%. So just wanted to tie these two things up with the kind of supply side challenges that we have. Despite the supply side challenges, we know the high attrition which is there for us and the industry and the salary hikes that we have to give. How is it that we are able to expand our gross margins and reduce the subcontracting costs? And do you believe it is sustainable going forward as well?

Vinit Teredesai: Yeah, thanks Vibhor. As you rightly pointed out that the subcontracting cost is one of the operational levers that we are able to utilize for scale up, scale down, and that has a pretty much good impact on the margin story. The second aspect is also the fact that we are able to get a good traction of freshers into the billable community, which is helping us in terms of managing our delivery, but keeping our cost at a minimal level. So these two or three parameters, I would say, continue to remain and our endeavor is to see more and more freshers, get infused into the system and see how quickly can they be bought into the billable section. So that has been our endeavor and that is how we will continue.

On the margin story, we have always said that 20% plus EBITDA margin on a sustainable basis looks something that we are looking to continuously aspire and deliver and that is where our overall planning exercise goes around.

Vibhor Singhal: Got it. So in this case, let's say in this quarter like, we exceeded that guidance and we reported around 21.5% EBITDA margins. Going forward, if our margins is comfortably ahead of the guidance would we be looking to plough some of that part back into the business in terms of let's say, higher S&M spend to grow or we would just let the path of profitability take its own course?

Vinit Teredesai: No, absolutely not. Our intent is definitely to see whatever margins we are able to make above 20% is to invest back into the business. It does not mean every quarter we will be able to deploy that money back into the business. As and when the right opportunity comes in, we think we are geared up to make those investments and still deliver a profitable growth story of 20% plus that has been mentioned in the past.

Moderator: Next question is from Manik Taneja. Please unmute yourself Mr. Manik.

Manik Taneja: Hi, thank you for the opportunity and once again, congratulations on the great execution. I just wanted to pick your brains around what is helping Mindtree to manage its subcontracting costs? For most of the industry we are seeing subcontracting expenses go up. So just trying to understand what is driving this phenomenon for us. That's question number one. The second question that I had was with regards to the client addition trends that we are seeing. So since the time the ownership change happened, we were essentially focused on reducing the tail accounts and over the last couple of quarters, we are seeing this trend change. So do you think we are past this phase of rationalizing the long tail of accounts, and now we should probably see expansion in terms of number of accounts? And when do we start seeing progress in terms of customers moving to the higher revenue buckets? Because for all practical purposes, the number of \$50 million or number of \$100 million dollar plus customers have remained unchanged for the last several years for the company. Thank you.

Debashis Chatterjee: Thank you Manik. In terms of subcontractor costs, let me answer. And then I will let Vinit add. See I think Vinit has already answered that in the last question. But this is an important lever that we always monitor and if there is a spike in demand, then we probably have no other choice, but to look at more sub-cons to cater to the demand. But again, when we do that, we also have an immediate plan to how to rationalize that over a period of time. Once the fulfilments happen, we need to replace the subcontractors and get into more FTE mode. And again, the pyramid correction is also something that we do. I will only say that this is not something that can happen only in one quarter, because if you have heard our commentary, I have told earlier also that there is a very strong process that we have put in place where we monitor all the levers that is required to manage the margin. And that is why the confidence is there when Vinit says that and of course, I also believe, and I say that we can hold onto our margin band. Because we feel that we have the processes in place, the levers in place, the discipline in place,

where we can run the business in such a way, apply all the parameters and still deliver the margins. So I would say that this is just a part of the overall process that we have laid out. The subcontractor costs may go up and down, but it will get rationalized over a period of time.

And in terms of client additions specifically, Manik I must say that you are right. There was a time when we had to rationalize the long tail of clients. In fact, just to give you some idea, ever since the management change happened, we rationalized more than 150 tail accounts, tail clients and we have added more than around 75 new strategic logos. So essentially it is our endeavor to ensure that we can get into more of \$50 million accounts etc. It doesn't happen overnight, but we have a robust plan with our account mining plan, the cross selling and the upselling that we are doing, putting the service line sales strategy in the markets. With all these things, that is what we want to do. But if you look at our fact sheet, the number of clients which are in the range of 20 to 50, as well as 10 to 20 that has kind of gone up a few notches this particular quarter and it will continue to happen. So it is not to say that the long tail is completely rationalized. There is still some way to go, but our endeavor is to focus on limited set of clients, focus on the strategic clients, do cross sell and upsell, and put a strategy around the top hundred clients. And that is exactly what we are doing, and you will see the results. We have already seen the results in the last 8 quarters. We will continue to see that as we go along. Venu, Vinit do you want to add anything?

Venu Lambu:

No DC, I think you have covered it.

Vinit Teredesai:

Yeah, you have covered DC.

Manik Taneja:

Thank you, DC. If I can just ask one bookkeeping question? If you could help us understand the number of freshers that we have added this quarter, as well as in FY22 year-till-date. Because you spoke about probably looking at 40 to 50% higher fresher intake in the next year. Thank you.

Vinit Teredesai:

Yeah, roughly I would give a rough number of around 1500 freshers are getting added per quarter.

Moderator:

Thank you. Next question is from Dipesh.

Dipesh:

Thanks for the opportunity. A couple of questions. Just continuing on the previous question. About fresher addition related thing. So broadly you are indicating around 6,000 fresher additions likely to happen this year. And on that base, we intend to have almost 50% as the uptake. Is that the right understanding or I misunderstood it?

Debashis Chatterjee:

Yeah. See, but the thing is, let's look at a macro level. At a macro level if you have to have your margin story intact and if you have to focus on growth and looking at all these macros at a broad level, we have to add many more freshers than we used to have in the past. And from

that perspective, as I explained in my prepared remarks that we have designed a new structure now, did a little bit of reorg and make sure that the entire talent strategy is owned by one person end to end. So, the number of freshers additions it is not fair to call out a number, but we will see significant fresher additions as we get into Q4, as well as beyond.

Dipesh: Fair DC. I just wanted to get the number right. 6,000 is what likely to happen broadly for FY22, right?

Vinit Teredesai: So it has not been completely 1,000 to 1,500 right from the beginning. This is the latest sort of run rate that we are talking about. But if you had to look at this going forward, we do want to ensure that every quarter we are able to add at least this many amount of freshers.

Dipesh: So this is more for futuristic in the next few quarters rather than in last 3 quarters?

Vinit Teredesai: Yeah.

Dipesh: And can you help us understand, because now we are focusing on employee pyramid correction. Can you share some data which helps us to understand? Because if I look our employee costs versus considering industry wide attrition and related implications on cost structure, our employee cost continued to be lower than hiring. So number of people which we had, let's say this quarter 7.5% were the headcount addition, employee cost is up 5%. Obviously, pyramid is helping you plus onsite offshore mix and all those things, some of these factors playing out. But if you can give some sense about how pyramid has improved for us over last 4, 5, 6 quarter that would be helpful.

Vinit Teredesai: I would again, not specific to the numbers Dipesh, but as I said that more and more freshers addition is helping us in terms of getting infused into the system. The second part is getting these freshers quickly on their training and then onto the projects and getting them billed. We had quite good success stories in some of our industry verticals whereby the fresher acceptance was very-very nice and they have become sort of a case study for the other industry verticals to sort of follow. So we want to ensure that this continues. In today's world, if we want to sort of ensure that our employee cost base does not increase exponentially, then the fresher addition strategy is going to be the key for us and we will continue to add. At the same time, as DC mentioned in his opening comments, we are also trying to look at getting some talent in some of the Tier II, Tier III cities like Coimbatore etc. which would also help us in terms of not only managing the demand, but also managing the attrition. Because with these, these cities are traditionally having lower attrition rates compared to some of the Tier I cities. So that's how it is.

Dipesh: Fair enough. Let me just ask it is slightly differently. Generally, large cap companies, you add 50% of the gross addition as fresher. Mid cap used to be somewhere around 30%. Do you think

Mindtree has reached a level where we can have 50% of gross addition as freshers? We have a system in place, we have good visibility about demand and this is a structure let's say we can implement over next 2-3 year perspective. Whether we are on their journey on that? That is if you can provide some broad colour. And last question is about onsite, offshore mix. Our offshore mix has reached historically high level. How you think over next 2 year, 3 year perspective, do you think this is more sustainable level we reached or you think still there is a scope to improve further? Thanks.

Vinit Teredesai:

Dipesh in terms of the journey, definitely our intent is to have more and more fresher additions. I won't call it by number, whether we are there or not. But definitely from a journey perspective, if you look up to FY21 and FY22 has planned out, I think so definitely we have made a remarkable progress in terms of our connects with the universities, getting the first day slot, getting the best of the talent and all. I think so from a structure perspective, we are all geared up. Eventually in the next couple of quarters, as this plays out even better, we will be able to add more and more people. I won't put a percentage at this point of time, but definitely we are geared up on that front.

On the offshore onsite one, yeah, it has reached a peak level. I don't think so there is a right now a probability of this going up from here. At some point of time, when the international boundaries open up and the travel starts, you will see a little bit of an onsite ratio picking up. But when we say onsite, it does not necessarily mean the developed nations like US, UK. It can be also to some of our nearshore development centres in the Eastern Europe.

Dipesh:

Thank you.

Moderator:

Thank you. The next question is from Mohit Jain.

Mohit Jain:

Hi sir. 2-3 questions. One is on the CMT Vertical. So now our dependence in...first if you could talk about the top client, the outlook there in the CMT Vertical overall, that will be helpful. And second is on the UK market. We had this phenomenal growth last time. Most of it was supposed to be recurring, we had this question last con call as well and now there is some softness, are we now -- we have crossed the hump, we should see growth from here on or what is your outlook broadly on the UK? The third one is for Vinit Sir on again employee cost. I'll come back to that later, but if you could answer these two questions first.

Debashis Chatterjee:

So your first question Mohit was on CMT vertical or the top client.

Mohit Jain:

Sir both together meaning what is the outlook on, because top client is also accelerating and then CMT vertical outlook overall.

Debashis Chatterjee: Yeah. I think the commentary remains the same and consistent because you know the top client is a very strategic client and we are where we are because we are doing -- delivering good work with the top client and the other thing is that when we say top client, we have to also understand that this top client is basically -- we are working in multiple LOBs within the top client. So there are multiple stakeholders within the top client and each relationship itself is a large relationship. So we should always look at the top client as a set of multiple LOBs within the top client. That's the way we kind of look at the top client. So since it is multiple LOBs, you know some of the LOBs will grow faster than the others and overall growth of the top client continues and our endeavor is that top client should grow, but the concentration of the top client should come down slowly. The highest we had reached around 30% from there we have come down to 24% in terms of client concentration. But just from a growth perspective, if I just look at the year-on-year growth, I've also he said that you know we should not just go for one quarter movement at the top client, look at our overall yearly basis because there are cyclical things happening over there. So overall at this point of time if you look at year-over-year, the top client has grown around 17% and if you look at year-over-year and if you look at the next set of 2 to 20 clients; the 2-20 bracket year-over-year that growth is almost 41%. So which means our strategy of growing the top client is intact, but at the same time our strategy of growing the other set of accounts through cross selling and upselling and doing more effective account mining, selling the integrated capabilities, that is also intact. So I hope that answers the question and let Venu comment on the UK part.

Venu Lambu: Yeah, sure. On the UK part, if you actually look at it, when we spoke last quarter, we did speak about the continued demand that we see in supporting the major segment, which is where we have a lot of clients in the UK, which is Retail and CPG segment and we saw that growth happening in Q2 and even if you look at from a year-on-year perspective for the corresponding quarter, we've actually grown more than 60%, right. The UK growth has been almost 65% plus on a year-on-year basis. So you know one particular quarter, on a quarter-on-quarter basis, is not really a reflection of any certain trend. It just happened to be that the Retail and CPG sector which is fairly dominant for us in the UK clientele base, this is typically a peak period. The Christmas happens to be the peak period and during this peak period, you know the big transformation or the digital intervention projects don't happen because you don't want to do disturb the business continuity. So, you keep this period more as a freeze period. I wouldn't read anything more than that because this region has grown more than 60% year-on-year. So, I'm still optimistic about how UK will grow in this subsequent quarters as well.

Mohit Jain: Perfect. Few for Vinit sir. One is on this employee cost. If you look at the breakup in the notes, there's this Provident fund amount which I sort of declined on a YOY basis. Is there a reversal or something which has happened or change in policy?

Vinit Teredesai: No. Last year if you remember Mohit, we had made the provision for one of the Provident Fund accrual that was needed and that's the reason last year, there was a onetime sort of

reclassification exercise that happened. But if you look at from a normal perspective, there is no change.

Mohit Jain: Sir I looked at 9-month to 9-month also there was a decline. Uh so it looked like..

Vinit Teredesai: It's the same. It's last financial year also.

Mohit Jain: Okay. And second was on your receivable days like working capital seems to be going up quite sharply. So if you could help us understand is this the new normal 80-85 kind of days or do you think receivables will eventually come down. Last is on NxT, was there some payout in the quarter because this was acquired last quarter, right. So I was hoping that the payout would have happened in September.

Vinit Teredesai: On the DSO, it's a marginal uptick at this point of time. Our endeavor is to ensure that from our billed DSO perspective it remains within the 60 to 65 days range and that's what we endeavor to achieve. There are few pockets whereby you face in the bit of an extended credit terms, but nothing but really to change the DSO. And as far as the NxT

Mohit Jain: Sir extended credit terms for few clients, is it?

Vinit Teredesai: Few clients, there is an ask for a little bit higher period.

Mohit Jain: So, this is for the entire MSA like going forward also they will remain in that higher credit period.

Vinit Teredesai: Some clients. Again, as they said majority of our clients continue to deliver the money in the requisite timeframe. On NxT, the acquisition was effective July 1. So, it happened at the last quarter. The first payout happened in the last quarter. This quarter we just had a working capital marginal amount being paid on account of working capital adjustment and that was the roughly a close to a \$1Mn paid. Otherwise, there is no other payment that happened at this moment

Mohit Jain: So that payout is complete now right as of 3Q.

Vinit Teredesai: No there is another payout, which will be happening in Q1 of FY23.

Mohit Jain: Can you quantify that Sir.

Vinit Teredesai: It's roughly around I would say \$11 million roughly; \$11-12 million.

Mohit Jain: Understood Sir. Thank you. That's all.

Moderator: Thank you. Next question is from Sulabh Govila. Please un-mute yourself. Okay, we'll go to the next. Next one is from Abhishek Shindadkar

Abhishek Shindadkar: Yeah. Hi thanks for the opportunity sir and congrats on good execution. I just have one question. Our sales and marketing headcount is up 25% year-to-date and you know our TCV quarterly bookings still continues to be flattish in the 400 million range. So can you help us understand the mix of hiring in terms of farmers, hunters and where would the hiring be reflected going forward.? Is it more continued improvement in mining or there could be a material improvement in our quarterly bookings? Thank you.

Venu Lambu: This is Venu here. Let me take that. if you actually look at our S&M headcount, it's not just about having the account managers, client partners, BDM or service line markets leads. The S&M headcount also include the capability that you need to build to do the solutioning, the bid management, and other aspects of the sales and marketing process. So hence it's not necessarily a direct reflection of number of people who are actually in the front. So that's the first one.

With regards to where the focus is going to be? Look you know we've been very clear that we wanted to expand the wallet share of our existing customers, as when we started the account rationalization. So, we've made a very significant investment in our client partner teams, in our vertical teams, account manager, service line specialists, and so on. So that investment will continue. As and when we acquire the new logos, we will continue to over invest in those accounts to expand and also in the existing relationship will bring the specialization to do that. So that's how I look at it. You need the capability of acquiring the new customer as well, at the same time we also want to make sure we are the right team in place to expand our relationship with our existing customers. So, I really don't want to pick which one would be the most investment area in terms of priority, both are equally important. So that's how I look at it. And just additional commentary I would like to make is that, we also made some announcement with regard to the Geo, in the Asia Pacific. We got the new Geo leader who's just about three months old in the system and the leader in DACH and so on. So there has been some new teams, which has come about over the last one quarter or so. So hence again it's too early to relate to those additional accounts to the additional booking, but the investments we're making is with a purpose that we will continue to grow and we'll show that improvement on all these aspects.

Abhishek Shindadkar: That's helpful. Thank you for taking my questions.

Shindadkar:

Moderator: Thank you. Next question is from Ashwin Mehta.

Ashwin Mehta: Yeah hi. Can you can you hear me?

Moderator: Yes.

Ashwin Mehta: Hi. Thanks for the opportunity and congrats on a good margin execution. Two questions from my side; one is on the travel vertical. So that on a last 12-month basis has given us almost 1/4 of our incremental revenues. Now given the omicron scare, what is the near-term outlook of this vertical? Anything that you felt in terms of your clientele here and the second question is around segmental margins, wherein the CMT margins have gone up by almost 280 bps this quarter. So what drove this disproportionate increase in margins and how sustainable that is?

Debashis Chatterjee: Thanks Ashwin. So let me just provide some details. In terms of Travel & Hospitality, there are a couple of pointers. One is we have been also trying to diversify in this industry segment and go beyond the traditional airlines and hotels per say. We have been looking at surface transportation, we have been looking at food and beverage, we also have a lot of car rentals within this. So essentially -- we recognize the need to diversify, and we have been doing that very consistently over the last three or four quarters. The effect of omicron - we are watching it very closely and it is not evenly distributed within this sector. For example, if you look at car rentals, they're actually seeing greater traction right now. Food and beverage, hospitality is cautiously optimistic because of the situation and of course there is softness that we see in terms of cruise liners as well as business travel. So, we are watching it very closely, but the fact that we have diversified gives us the confidence that we should be able to tide over it over a period of time.

In terms of CMT specifically, I think there are two aspects. One is I think Vinit touched upon the subcontractor. We have been very conscious in terms of subcontracting. The subcontractors can come in, but over a period of time they need to be replaced and the other aspect also is that you know there are situations where if there are a very niche skills that we are providing for our clients. Some of this niche skills are premium skills and we are also able to you know bill differently for those particular niche skills. So, it cannot be just one factor. There are multiple factors like this which we look at and that's why you see the uplift in the margin. I will let Venu to add addition color if you want to.

Venu Lambu: No DC, I think you pretty much covered that part. I think the TTH diversification is probably I would emphasize it once more. When we started recovering this revenue you know post pandemic or during the pandemic I would say, we're still in pandemic. In the last two years, the strategy was not just about recovering the revenue that went down in the first lockdown. The strategy was more about building resilience in the system. So the diversification of TTH requires a new lens to look at it. The kind of customers that we are onboarding aren't necessarily in the direct line of impact. So, we're fairly confident in the short term, of course we can't predict how the new viruses or new set of variants would come about, but given where we are today, I think the diversification strategy would build the resilience in TTH.

Ashwin Mehta: Thanks for the answers and all the best.

Moderator: Thank you. Next question is from Vibhor Singhal.

Vibhor Singhal: Hello.

Moderator: Yes, go ahead.

Vibhor Singhal: Yeah. Hi thanks for taking my question again. DC just one question, wanted a bit color on the Retail and BFSI segment; 2 separate segments of course. Now Retail segment of course we saw a very strong growth last quarter and I think on the back of that base I think on a QoQ basis, this was more like flattish. So just wanted to take your -- basically pick your brain on this part that how is the growth looking in that segment going forward as economies across the globe recover and retail segment has seen kind of an uptick for almost all of our peers and overall industry as well. Secondly just wanted to understand our strategy in the BFSI segment. Now given the size that we are both in terms of revenue and market cap, I think most of the other peers have a higher share of BFSI revenue in their segment. BFSI tends to be the bread and butter of most of our IT Services companies. We tend to have a slightly kind of a differentiating profile where our concentration of high-tech travel and these segments are more and travel is relatively lesser than the peers. So where exactly do you think -- so what exactly are the areas that we are focusing on BFSI and what is our strategy for this segment not from a let's say next two quarters point of view, but from let's say next three to four years point of view.

Debashis Chatterjee: Yes. Vibhor let me just start and then I'll request Venu also to provide some additional color. See as far as the Retail, Consumer goods, Manufacturing segment is concerned, it's kind of marginal growth on quarter-on-quarter, but you know a year-on-year basis, we still grew around 52%. One of the things is we had a very strong Q2 in this particular vertical. But the other thing which you also need to understand is especially for retail and consumer goods. I think all the transformation initiatives, they kind of take a backseat during the holiday seasons. A lot of freeze that comes into place and as a result of which some of the initiatives that we are working on that's just kind of put on pause. But that doesn't mean anything because that will again get restarted and already has got restarted as we get into the Q4. So that is probably -- that is the reason why you see that it is flattish, but from an overall demand standpoint, I don't think there is anything that we are concerned about and of course I mean we have to watch the omicron situation that's kind of evolving very fast and we are very cautiously watching it.

In terms of the BFSI, I would say that you know the strategy that we have adopted is, first - we had to stabilize this. There was a big bit of consolidation that happened early days post the management change. So, we kind of went over that, now it's in a growth momentum. And what we are seeing over here is that the customers are very focused in terms of realigning their technology platforms, portfolios. They are very keen to accelerate their adoption of future

technologies, modernize the legacy infrastructure, so there is a lot of demand. So, we will focus in terms of from a strategy standpoint, we feel that the four service lines, the integrated capabilities that's definitely going to work. There is a lot of opportunities that we have through partnerships as well through hyperscalers as well as some of the industry leaders in terms of the vertical platforms; the product providers. We are in the process of doing a lot of partnerships so that we can tap into this particular segment and some of that we kind of articulated in the opening remarks. But one thing which you have to also understand that this is a segment where it takes a little bit of time to build the relationship and grow the relationship. BFSI is one segment where clients tend to be with the respective providers, and they don't change. So, it takes a little bit of time, but I think our strategy is put in place and I'm sure over a period of time, we will continue to grow in this segment. Venu.

Venu Lambu:

Yeah. Just additional commentaries on two areas. I think which DC touched upon in the beginning as part of the opening comments. The first one is the industry partnership. We announced Finastra partnership, we already had a partnership with Duck Creek from Insurance standpoint and getting Finastra for the payments with regard to BFS, that sort of strengthens our industry partnership story. So that is something which I believe is a big growth lever and will continue to look for more partnerships.

The second one again which I think was touched upon earlier was the modernization agenda, right. I think the BFS and Insurance still have a huge amount of technology debt, if I may say. So whether it's a mainframe modernization or legacy modernization, app modernization, cloud migration, so these are the capabilities I think we're much stronger than where we were before because we have delivered successfully for some of the Insurance and Banking clients. It's now just a question of replicating it across more clients and you know get that kind of growth we want at the BFS. And we're happy because this has been the first year of positive growth after the last year when we consolidated it. Now that we have more strengthened capability you know we leverage all that to grow it further.

Vibhor Singhal:

Got it. Thanks for taking my questions and wish you all the best.

Venu Lambu:

Thank you.

Moderator:

Thank you. Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Vinay Kalingara.

Vinay Kalingara:

Thank you all for joining this call and thanks for your continued support. Stay safe. You may now disconnect your lines. Thank you.

Moderator:

Thank you on behalf of Mindtree Limited. That concludes this conference. Thank you for joining us and you may now exit the call.
