



Mindtree

A Larsen & Toubro Group Company

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July 19, 2022

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Stock Code/Symbol: 532819/MINDTREE

Dear Sirs,

Sub: Transcript of Earnings conference call for the quarter ended June 30, 2022

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed transcript of the Earnings conference call for the quarter ended June 30, 2022 conducted after the meeting of Board of Directors held on July 13, 2022.

The above information is also available on the website of Company: www.mindtree.com/about/investors

This is for your kind information and records.

Thanking you,

Yours sincerely,
for **Mindtree Limited**

Subhodh Shetty
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Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of Earnings Conference Call

First quarter ended June 30, 2022

July 13, 2022

Vinay Kalingara:

Ladies and gentlemen, good day and welcome to the Mindtree Quarter 1, FY23 earnings conference call. Please note that this conference call is being recorded. All participants lines will be in the listen only mode and there will be an opportunity for you to ask questions after the opening remarks. Today on the call, we have with us Mr. Debashis Chatterjee, Chief Executive Officer, and Managing Director; Mr. Venu Lambu, Executive Director and President, Global Markets; and Mr. Vinit Teredesai, Chief Financial Officer.

We will begin with a brief overview of the company's Q1FY23 performance after which we will open the floor for Q&A.

During the call, we could make forward-looking statements. These statements are considering the environment we see as of today and carry risks and uncertainties that could cause our actual results to differ materially from those in such forward-looking statements. We do not undertake to update any forward-looking statements made on this call.

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.

We are excited to report yet another quarter of robust performance and a solid start to FY23, thanks to the confidence placed in us by our clients and the dedication of our teams. Our industry-leading performance yet again speaks to the growing relevance of our value proposition, strong demand of our capabilities and disciplined execution. For the quarter, our revenues were USD 399.3 million, up 5.5% sequentially in constant currency, making it our sixth consecutive quarter of more than 5% growth in constant currency, even in the face of rapid business and technology shifts.

Our EBITDA margin - a measure of our growth potential and profitability - came in at a healthy 21.1%, while we continued to invest aggressively in our people and partnerships. Our order book, comprising a healthy mix of annuity and transformational deals stood at USD 570 million, up 13.1% year-over-year. I am pleased to note that this marks the highest ever TCv in our history.

The pandemic and its aftermath have further reinforced belief in the long-term potential of digital transformation. Organizations across sectors have had first-hand experience of its value in separating the winners from the rest. It is clear by now that digital transformation is an ongoing business imperative. It is neither a one-off project, nor a short-term quick fix. Against this backdrop, what has continued to give us an edge is our ability to service clients through all phases of their digital transformation journeys - digitalizing processes for better efficiencies, reimagining processes for greater effectiveness, redefining business models to maximize growth and market share, and harnessing digital technologies to become future-ready and future-relevant.

This positions us well as a partner of choice to clients pursuing digital transformation to improve revenue streams, as well as realize cost efficiencies. This dual objective underpins every

transformation initiative but tends to be more immediate and pronounced during macroeconomic shifts. Let me cite an example.

We began our relationship with a leading U.S. insurance provider as a full-stack partner for digital, data, cloud, and infrastructure transformation. Through our end-end integration capabilities, we are also now helping the insurer modernize its systems through a cloud migration factory with automated migration management and infrastructure build. The goal is to enable the insurer to drive engaging customer experiences and innovative services, while optimizing cost, scalability, efficiency, and agility. Likewise, an Australian wealth management group has selected us as a partner of choice for its core modernization as well as digital transformation program.

In our mission to help businesses not just keep pace with change, but actually get ahead of it - what we call, “getting to the future faster” - our strategic call to focus on full-stack engagements, hyperscaler partnerships, product-centric models, edge-to-experience solutions, industry convergence and next-generation delivery capabilities is delivering solid results.

For example, a leading U.S. based airline chose us as a digital product development partner to transform its value chain to a next-generation, product-centric operating model. We are leveraging our next-generation delivery capabilities to help a healthcare technology provider enhance its claim system and decision-making, while also transitioning to a product-centric model and creating integrated solutions across the value chain. Through our strong hyperscaler ecosystem partnerships, we are helping a global professional services firm build a data management platform for a multiyear core transformation journey.

With technology increasingly at the center of both enterprise transformation as well as value maximization, we continue to consolidate our leadership position in delivering superior outcomes and differentiated experiences by using emerging technologies. For example, for a pharmaceutical company, we are using blockchain capabilities to create smart digital contracts to track drugs through their supply chain, from raw material to distribution. We are helping an insurance provider build a custom end-to-end insurance platform in partnership with a no-code development platform-as-a-service.

We are very pleased with our progress on our growth levers, reflected in our rapidly growing portfolio and capabilities across industries, markets and technologies to help clients unlock greater value from digital transformation at scale.

We are also helping a growing roster of clients drive transformation at scale, while also optimizing their technology footprint. During the quarter, for example, we won a number of multiyear managed services deals in areas such as cloud, application development, infrastructure operations, production support and security with a diverse set of clients ranging from a global travel company and a specialty insurer, to a leading hyperscaler and a leading audio technology company.

With that, let me turn to our industry groups, where we continue to grow focus accounts and scale strategic new logos through our end-end integrated offerings.

Our Communications, Media and Technology business grew 5.9% sequentially and 24.7% year over year. We supported at-scale transformation of some of the leading technology enterprises with our product engineering, digital marketing, e-commerce, Enterprise IT platform development and cybersecurity services.

Our Retail, CPG and Manufacturing business was down 8.7% sequentially but grew 15.6% year over year. The sequential decrease was because of a continuing ramp down in a retail account as well as deferred spends by a few clients in consumer-facing segments. The reported growth was also impacted by a significant cross-currency headwind. While we see continued demand for solutions to reimagine and enhance customer intimacy, customers are also looking to modernize their data ecosystem and generate real-time insights to improve decision-making.

Our Banking, Financial Services and Insurance business grew 6.5% sequentially and 31.7% year over year with our strategy to expand full-stack capabilities across our focus accounts and recent Tier-1 wins, as well as the strength of our partner ecosystem continuing to deliver results. Our wins validated our success as a transformation-at-scale partner with clients increasingly seeing us as the right partners for their future state.

Our Travel, Transportation and Hospitality business grew 11.2% sequentially and 48.9% year over year. Our diversification strategy continues to deliver results with our wins in the newer sub-sectors scaling up well and contributing to the growth. With the recovery and rebound in our core sub-sectors of airlines and hospitality, clients continue to focus on customer experience, data intelligence and lean operations to drive efficiency.

Our youngest industry group, Health continued its strong growth trajectory with a 43.5% sequential and 170.4% year on year growth. We see good traction with the investment we made in COPE Health, and it is helping us play at the intersection of health and technology. We are seeing good client traction in the areas of value-based care, clinical workforce management and population health management.

In terms of geographies, North America contributed 76.8%; Continental Europe, U.K. and Ireland contributed 14.6%; and APAC and Middle East contributed 8.6% of our revenue during the quarter. Among our service lines, Customer Success contributed 40.8%. Data and Intelligence contributed 15.9%. Cloud contributed 19.5% and Enterprise IT contributed 23.8% of our revenue for the quarter.

Our commitment to the highest levels of quality and excellence earned us the British Standards Institution or BSI certification for 7 ISO standards across 18 locations, including 5 new ones added this year in the U.S., the U.K., Poland and India.

We owe our consistent growth to our passionate and talented Mindtree Minds. Through the quarter, we continued to sharpen our employee value proposition by building upon our highly engaged, people-centric culture through more creative, agile, and personalized approaches to

employee care and development. We were recently certified as a Great Place to Work® in India for 2022-23. This is the second consecutive year we have received this certification from the Great Place to Work® Institute, considered the gold standard for workplace excellence.

During the quarter, we onboarded more than 4,700 Mindtree Minds, including more than 1,500 fresh graduates. We closed the quarter with global headcount of more than 37,400. For the quarter, our LTM attrition was 24.5%, consistent with our earlier view that it will take a few more quarters for the situation to stabilize. Our program aimed at identifying and grooming critical talent on an ongoing basis continues to produce good results. It revolves around the framework underpinning our “one-size fits one” employee engagement and career enablement strategy, focused on monetary as well as non-monetary elements such as role rotations, upskilling and workplace flexibility. These are facilitated through a number of initiatives such as intelligent staffing application for more efficient internal job search and fulfillment, and opportunities for Mindtree Minds to acquire skills and certifications aligned with both organizational needs and individual aspirations. As a part of our revamped training program to prepare early career talent for client projects, more than 2,500 candidates, studying in the last semester of their engineering degree program, are being trained in various technology tracks and will be ready to be billed within days of joining us. We continue to work towards expanding our offshore and nearshore delivery footprint. Within India, we are in the process of setting up full-fledged offices in Coimbatore and Noida and satellite offices in Bengaluru. All Mindtree offices are now operational. Over the last couple of months, the footfall at our facilities has steadily increased with the fully vaccinated Minds working from office on at least 2 to 3 days a week in a COVID-appropriate manner.

I will now turn over the call to Vinit for Q1 financial highlights. Vinit?

Vinit Teredesai:

Thank you, DC.

Good evening, and good morning to everyone on the call. We are pleased with a strong start to the new fiscal with yet another quarter of profitable growth. Our sequential revenue growth was 5.5% in constant currency. This is the sixth consecutive quarter of 5% plus revenue growth in constant currency terms. Our sequential revenue growth in dollar terms was 4%. We reported a strong EBITDA margin of 21.1% compared to 21% in Q4FY22. Excluding a one-time impact of merger-related expenses, our EBITDA margin was 21.7%.

Reported EBITDA margins this quarter had an impact of 50 basis points from the visa cost, 60 basis points from merger-related expenses. This was offset by 50 basis points of operational efficiencies and 70 basis points from forex benefits. Our reported EBIT margin for the quarter was 19.2%, compared to 18.9% in the preceding quarter. Excluding a one-time impact of merger-related expenses, our EBIT margin was 19.7%. Net Forex gain for the quarter was USD 0.6 million, compared to USD 6.2 million in the previous quarter.

PAT margin for the quarter was 15.1%, compared to 16.3% in Q4FY22. The gap between the EBITDA and PAT increased primarily due to the lower forex gain on our hedges and lower investment income due to the spike in yields. The effective tax rate for the quarter was 24.6% compared to 24.5% in Q4FY22. Earnings per share was INR 28.6 for the quarter as compared

to INR 28.7 in Q4FY22. Excluding the merger-related expenses, the earnings per share was INR 29.7. Our DSO for the quarter significantly improved and stood at 50 days. Our robust cash management led to cash and investment balances at an all-time high of USD 500 million.

For the quarter, operating cash flow to EBITDA was at 67.2% versus 92.2% in the previous quarter. Free cash flow to EBITDA was 60.7% versus 82.7% in the previous quarter. Annualized return on capital employed for the quarter was 41.3%. Return on equity for the quarter was 33.6%. Our utilization in the quarter was 81.2%, compared to 83.1% in Q4. As of June 30, 2022, our cash flow hedges were at USD 1.7 billion, hedges from the balance sheet were USD 147 million and options of USD 3 million.

We continue to sharpen our focus on sustainability with an ESG vision for 2030 built around bolder goals and clearer timelines. We are proud to share that we have been accorded the leadership position in CRISIL's sustainability yearbook 2022 based on an evaluation of more than 575 companies in India across 53 sectors. Mindtree won the prestigious Golden Peacock Award for risk management in 2021 for its commitments to business excellence and maturity in the enterprise risk management. This is a strong recognition of our ongoing efforts in the direction of establishing a robust, resilient, and responsible business. I now hand it back to DC for an update on the Mindtree-LTI merger and our business outlook.

Debashis Chatterjee:

Thank you, Vinit. As you will recall, on 6th of May, Mindtree and LTI announced a merger that will see the 2 companies join strengths to create an efficient and scaled up IT services provider exceeding USD 3.5 billion. The merged entity proposed to be named LTIMindtree will combine the complementary strengths of both companies to better serve customers by unlocking scale benefits, a stronger portfolio of offerings across verticals, enhanced customer engagement and streamlined delivery processes. This will boost the ability of the 2 companies to participate in large deals, strengthen partnerships with ecosystem players and create a more distinctive employee value proposition.

The stock exchanges provided their observation letter and no objection on June 16, 2022. The merger is now awaiting other regulatory approvals. A steering committee has also been set up and is meeting regularly to oversee the integration plan.

Both Mindtree and LTI have delivered market-leading financial performance and created value for their shareholders. Synergies between the 2 companies are already producing results. A case in point is a large deal we recently won in partnership with LTI to manage end-to-end development and support for the customer services applications of a Europe-based global travel technology company. The deal is driven by a differentiated value proposition, combining Mindtree's extensive travel and transportation domain experience with LTI's deep expertise in core modernization. It exemplifies how the 2 organizations plan to unlock their full potential by becoming a combined at-scale player to gain from recent industry shifts around large deals and end-to-end offerings.

Organizations across industries continue to accelerate digital transformation for innovative outcomes, continuous differentiation, and sustainable growth. Technology is embedded ever deeper into competitive strategies around market relevance and business resilience. Digital

transformation is not necessarily constrained by market cycles. While they may momentarily affect the pace of decision-making, that too in certain sectors, they are unlikely to reverse or stall the larger wave of business-critical technology modernization that is increasingly becoming key to survival. Our experience shows that technology and technology-led innovation are often the antidotes to macroeconomic challenges.

In fact, economic headwinds are known to spur organizations to free up dollars from pockets of inefficiency and redeploy them on initiatives with assured ROI. A robust first quarter performance has reinforced our confidence in our ability to continue our growth momentum through the foreseeable future. While there are no indications yet of any significant change in client behavior, we are closely watching near-term macroeconomic developments and continue to be cautiously optimistic about the opportunities created by the need to balance cost and digital imperatives with an eye on the future. With that, let me now open the floor for questions.

Vinay Kalingara:

Thank you, DC. A few points while we wait for the question queue to assemble. All participants will be in the listen only mode during the Q&A. If you would like to ask a question, please use the 'raise hand' option on your screen, you will then be prompted to unmute your line and ask the question. Please state your organization's name before asking your question, I request that you each keep one question & a follow up to allow as many participants as possible to ask questions. We'll take the first question from the line of Mukul Garg from Motilal Oswal.

Mukul Garg:

DC, a really good quarter. But obviously, given the concerns on macro, would be great if you can share what you are viewing in different verticals, from clients, on their spending over next 3 to 4 quarters? And especially, you highlighted that you are seeing deferment and a ramp down in RCM. If you can give some color on - was that something which was regional or segmental in nature? Or was more company specific given that there are concerns on budget cuts in the vertical?

Debashis Chatterjee:

Thanks, Mukul. So let me take a step back in terms of how we do our planning. We work with our clients; we try to understand their priorities. And obviously, our growth, our plan depends on the portfolio of clients that we have. We have always been saying that the first half of FY23, we are extremely confident about our ability to deliver growth or rather profitable growth, and we had built a nice pipeline.

Now when we are talking to our clients across the industries, barring RCM, and that too within RCM only specific clients where they are impacted in a certain way. And I'll come to that in a while. Most of my clients are not really changing their big plans, whatever the plans they have made for the full year, they are not changing their plans. We are continuously in touch with them because if they change their plans, our plans also change. So, at an overall level, I don't think we have come across a scenario where clients are changing their plans drastically for the full year. But they are also cautiously optimistic, watching the macro situation. And if they change their plans, our plans will change, and we will definitely come back to you when we get to know that.

But there are a couple of scenarios in a couple of clients in the Retail and Consumer Packaged Goods, where we have seen that the clients have got impacted from their market standpoint.

They had markets in Russia as well as in Ukraine. And even on the supply chain side, they were reliant on China and the fresh set of lockdowns in China impacted their supply chain as well. So, in those scenarios, we have seen some deferments. And as I articulated, in my commentary, every client is in some phase of digital transformation. And this is something that they are doing consciously so that it can be a revenue enhancement for them. So, in that scenario, I think it's very difficult to stop all these initiatives because that will take them back again. So, I don't think they are going to do that, but there is maybe a temporary slowdown in certain areas. What we are talking about is a few cases where we have seen those conversations where there's a bit of deferment and probably a little bit of slowdown in terms of the projects they had committed earlier. But at this point of time, at a broad level, we have not seen any significant changes. Venu, do you want to add anything?

Venu Lambu:

I think I'll probably just add some additional commentary - that when you look at digital transformation - to the point that when DC spoke about deferment or a hold, digital transformation happens in sprints, right? So, you have an option to defer a certain sprint, which is supposed to deliver a certain functionality or an outcome. So, what we are seeing is a very selective clientele base, that some of the sprints are either slowing down or getting deferred. But that's really in a few pockets. I don't think we can generalize it as an industry or a sectoral trend. That's something which I just wanted to add over and above what DC said.

Mukul Garg:

Sure. Thanks for a very detailed answer. If I may just add a bit on the TCV side. This was a really big quarter in terms of TCV deal wins. How are you seeing the mix of annuity versus project business here? Because the 6 examples you have given in the presentation, they are all multiyear in nature. So, is there a big portion which is annuity or there are some near-term projects which are also picking up? And just wanted to clarify, is it fair to assume that your top client would not be very different from a contribution perspective to TCV compared to the revenues?

Debashis Chatterjee:

So as far as TCV is concerned, if you just look at the pattern. There are certain renewals that happen during this time of the year, and that's something which helps us in terms of the TCV for this quarter. But having said that, it's significantly higher than, it was around about \$500 million same quarter last year. So, it's almost like a 13% improvement in terms of YoY in terms of TCV.

And your observation is right. Though I may not have the right numbers in terms of the percentage, but it has been our endeavor to look at some of the TCV which can be more multiyear rather than just within the particular year. So, from that perspective, yes, there is some component of this TCV, which will carry over to the following year with a multiyear opportunity. That will always be there. And if I understood your second question in terms of the TCV as a percentage of, as a share of the overall, fairly in line with the overall revenues as well in terms of the top clients.

Vinay Kalingara:

The next question is from the line of Vibhor Singhal.

Vibhor Singhal:

Hi DC. Congrats on a great performance yet again. Just a couple of questions from my side. One thing that I wanted to ask you, DC, is that our top client has shown very strong growth yet

again in this quarter. But what we see globally is that top client and, of course, similar other companies, the hyperscalers, the global tech companies, they're all sounding words of caution. They're all resorting to basically employee firing. And basically, rising concerns on their growth trajectory over the next couple of years, especially driven by the inflationary and recessionary concerns.

In that environment, how do you think that top client will behave for us? Does that mean that the top client is facing recession and input cost pressures, would that mean that it could lead to better growth for us, or do you think it could actually flow down to us also in terms of growth from the top client?

Debashis Chatterjee: So Vibhor, great question. And probably you will hear the same answer from me that you have heard before is that our strategy is to grow the top client. Our strategy is never to slow down the top client. And our strategy is to make sure that the rest of the organization or at least the top 20 clients or 2-20 can grow faster than the top client and faster than the overall company. I have explained this earlier that our top client is nothing but multiple LOBs within the top client, which itself is a pretty large. So, whenever the client is going through various changes, it is very unusual that every LOB is going to be behaving in the same way. So, I think from that perspective, we keep an eye in terms of what's happening. But overall, invariably 1 or 2 LOBs always fire and they kind of give us the opportunity for the overall growth for the top client. Venu, do you want to add anything?

Venu Lambu: Probably, I'll just add extra comment with regard to the hyperscalers, the sort of commentary or what hyperscalers would expect. If you look at it, the cloud penetration in the global market is still probably at early stages. So, there is still a significant headroom for the hyperscalers to grow. So, in general, we shouldn't read any quarterly trend with regards to the hyperscaler growth. Most of the hyperscalers are sitting on billions of dollars' worth of backlog of orders that has been booked over the years.

So, there's a huge amount of heavy lifting to be done on digital transformation and actually realizing those booked orders into revenue. We continue to be bullish about the opportunity that is there with regard to the cloud and all the hyperscalers that we do business with. I thought I'll just call out how do we look at the hyperscaler trend with regard to some of these market headwinds.

Vibhor Singhal: Got it. My next question is on my favorite vertical, the Travel vertical, which has again seen very strong growth. So, DC, as you mentioned that we have diversified actively in this vertical, and we have seen that playing out over the past few quarters as well. If I were to ask you that the core part of our travel vertical pre-pandemic, which was airlines and hospitality, how far are we from the pre-pandemic level of business from those? I'm not asking you for an exact number, but in terms of a directional number - let's say, we are not yet at the potential that they were giving us business pre-pandemic or they're already there or some discount to that? Just to gauge the kind of room that we have to grow in the vertical, especially from this core set of travel companies?

Debashis Chatterjee: No, that's a great question, Vibhor. The simple answer is, we have actually exceeded the pre-pandemic revenues within this vertical. And even that will broadly cover most of the clients in the pre-pandemic, where we have managed to cross the revenues that we used to have. Now having said that, as a strategy, you must have seen that we have been very focused in terms of account mining. I mean even for this quarter, the focus 100 accounts that we have in the company, that contributes to almost 90% of our revenues.

And that is happening because we are able to do a lot of cross-selling and up-selling and creating the full-stack capabilities or full-stack accounts as we call them, where we can sell all our capabilities and services across the board. So, from that perspective, we feel that there is still significant headroom in terms of most of the clients that we have. And that's why we call it 'focus 100' clients where we can create more full-stack accounts from our perspective.

So definitely, we have crossed the pre-pandemic levels. Still headroom is there because our strategy is to go on mining those accounts. And of course, with the futuristic capabilities that we will be acquiring through the merged entity that will only give us a stronger positioning. Again, Venu, you want to add anything?

Venu Lambu: No, DC you covered most of it.

Vinay Kalingara: The next question is from the line of Sulabh Govila.

Sulabh Govila Congrats on a great execution. So, with respect to the deal wins that we've announced this quarter, while the booking number has grown by 13% YoY, the trailing 12-month book-to-bill ratio has sort of continued to come down. And given that we now have more mix of annuity business that we've been trying to increase in the whole pie, does that change our near-term growth trajectory versus what would you have anticipated at the beginning of the quarter or beginning of the year? Or is it in line with your expectations? I mean if you could say any color on that?

Venu Lambu: All right. So let me take that question, right? And Sulabh, the book-to-bill ratio, if you actually look at it, we've always been sort of floating around 1.2 kind of book-to-bill ratio, and that's always been a trend for us. And the fact that we have delivered 6 consecutive quarters of 5% plus growth, that means it actually shows that the time lag that is there from book-to-bill, that has actually fundamentally has not changed, right? And so given that context, I don't think you should read it anything more than that because within a year, there is going to be 1 or 2 quarters, which may be a bit seasonally weak quarter from an order booking point of view.

So, it all depends on when you look at the last trailing 12 months, right? So, if you had looked at it from Q4 onwards, you would have gotten a different picture. If you look at it from Q1, you sort of account to the Q3 of last year, which is seasonally a weak quarter even from an order booking point of view, you might get a different narrative. But if you look at from the whole year-on-year perspective, the order booking, we're confident that it will continue to increase. We've already shown that sequentially from Q4 to Q1. And the fact that it's getting translated into 5% plus QoQ revenue, I don't think materially there is any change on book-to-bill ratio.

Sulabh Govila: Got it. And then the next bit is on the employee costs. So, over the past 3, 4 quarters, our employee cost per capita has come down quite a bit. So just trying to understand that it's purely a function of a number of freshers being added to the system and increase in offshoring or has something else played out here? And given that offshoring is already at record levels, would you say that there's more room left here for us to improve?

Vinit Teredesai: Sulabh, you rightly highlighted one of the reasons why it's happening - mainly because we have been increasing our fresher intake. As you can see, we have been telling that this is probably our fourth quarter whereby we added around 1,500 freshers in a quarter. And now if you add all of that up, the rough math sort of indicates now 20% of our overall population is now in that fresher category. So, we are doing extremely hard efforts to balance our pyramid and keep our overall employee cost at minimal level.

Vinay Kalingara: I will read out the next question from Abhishek of Nomura. The question goes, congratulations on a good quarter. Can you please talk about your margin outlook for FY23 and Q2 in particular, when you have your salary increases? That's the first part. The second part is, with strong growth, do you think our margins are structurally headed towards 20% EBIT margin in the medium term? And the margin walk for Q1?

Vinit Teredesai: Yes. So, we don't give any typical guidance about our forward-looking margin outlook. But we have constantly been saying that 20% plus seems to be a good place, whereby we would like to place our business. Anything excess, we would like to invest back into business. And it does not mean that every quarter it will be 20%. Some quarters, it might be low. Some quarters, it might be up, but our endeavor is to sustain this 20% margin. Yes, there are headwinds, but we are also, on the other side, continuously ensuring that our cost discipline is very well managed, and we can leverage some of these benefits in our favor.

In terms of the wage inflation and the impact. Again, if you look at our Q1 margins right now, the reported margins are at 21.1%. And if you take out the one-off expenses on merger, it is around 21.7% EBITDA level. So, we have sufficient gap available to absorb the wage inflation. We have mentioned this in the past also that our wage inflation may not necessarily have an impact on all the employees because one of the positive sides of attrition, you may want to call that, there's a good amount of population that has also joined us in the last 12 months, which may not necessarily need the same amount of correction as what some of the tenured people may need. So, we do feel that while the little bit of an inflation pressure is there, but at an overall level, we should be able to sustain and absorb that impact and should still be able to sustain our margins in the 20%-plus range.

Vinay Kalingara: The next question is from the line of Mohit Jain.

Mohit Jain: Sir, just a follow-up on the same. So, you are saying with the wage hikes for the second quarter, your margin outlook basically remains the same, and you should be able to absorb given the growth that you are seeing?

Vinit Teredesai: Mohit, as I said, that it's not an outlook. It's our endeavor to maintain a profitable growth story, and 20% seems to be the place where I would like ourselves to be.

- Mohit Jain:** Right. And sir, second thing was on this fresher intake. I think you've shared some numbers in your opening remarks. Can you repeat those numbers and the margin walk, fresher hiring?
- Vinit Teredesai:** So fresher, this is the fourth quarter, whereby we added around close to 1,500 freshers per quarter. And if you just total them up and look at our overall population, it sort of represents around 20% of our population, which basically is in line with our flattening the pyramid strategy that we have adopted. We would like to continue with this. And our outlook of adding more and more freshers in the coming quarters continues to remain the same.
- Mohit Jain:** And this merger cost is a onetime in nature? So, I'm assuming the 60 basis points is done and dusted, and we should not see a repeat of it in the coming quarters. Is that fair? Or do you think something may come up in 2Q as well?
- Vinit Teredesai:** It is all with relation to the merger-specific expenses. There will be some integration and other expenses that may come in, but those may not necessarily come in the next quarter or the quarter after. It will be typically after the effective date and after both the companies come together. So, the impact of that will not necessarily be felt only on Mindtree. It may be felt more on the combined entity.
- Mohit Jain:** So, this may come up, but you will split it accordingly? Right now, the 60 basis points that your referred is more...
- Vinit Teredesai:** It will be a part and parcel of the combined entity.
- Mohit Jain:** I'm sorry, sir. Part and parcel meaning? Do you think that should build some...?
- Vinit Teredesai:** No, so what I'm saying is that the merger expenses, the one-time merger expenses are already done. As the merger becomes effective, right, there will be integration expenses that will get incurred, but the impact of that will not be felt only on Mindtree P&L, it will be felt on the combined entity P&L.
- Mohit Jain:** So as a percentage, the numbers may look lower?
- Vinit Teredesai:** Yes. That's right.
- Vinay Kalingara:** The next question is from the line of Sandeep.
- Sandeep Agarwal:** Yes. Can you hear me? Congrats on an excellent execution. So, DC, I have 2 questions? One, when we got into the pandemic, it came as a shock to everyone, and there was not much information about how things will play out. So obviously, there was a big shift from offline to online, which led to a very high amount of awareness or recognition that the enterprises need to spend big money to make up their infrastructure in a way where they can handle the sudden spurt in transactions. And probably the world will move much faster towards online in future, so they need to ready up their infrastructure, which earlier was a gradual move and had got expedited.
- Now when you see now people returning back to office, people going back to the old means of doing business to some extent, and it will not go to pre-pandemic levels ever because there is a change in behavior. But still some normalcy will return. So are you seeing that kind of urgency

in the mind of the enterprises, where it was a panic situation, during the pandemic that they just wanted technology at any cost and immediately? Are you seeing same kind of urgency today or at least you are seeing that they have learnt a lesson and they'll probably now this time not delay or postpone, and they will build their tech infrastructure, they will build their omnichannel and all those things? Or do you think that the recognition is fading away with time? What is your sense on that? The reason I'm asking this is that if the macro worsens the way the global economists are predicting, then will it give some discretion to postpone or delay the spends? Or this will be the last thing to get cut because of the tough lessons, which pandemic has brought the enterprises. So, if you can help me on this, will be great.

Debashis Chatterjee:

Let me take a stab at that. I think it's a great question, but I probably have to give you a very long answer. See, we need to understand what happened in the pandemic. The pandemic was unexpected. Nobody knew that this would come and stay for so long. And initially, when the pandemic hit, people thought it's a 1-month, 2, 3-months phenomenon, but nobody realized that is a 2-year phenomenon. As a result of which everybody, every client tried to reimagine their business models. They were looking at opportunities by which they can do their businesses in different ways.

And that is how you have the contactless, you have the direct-to-consumer, you have the omnichannel. All these things started flourishing. And in order to get all those things executed, you obviously must have a good backbone and the backbone was nothing but cloud. Cloud has kind of completely changed the way we deliver, that's why the hyperscalers became very important. So, keeping all these things in mind, I think every client was in a hurry to transform their ecosystem and get into the cloud, they accelerated their journey to the cloud.

And the purpose of accelerating their journey to the cloud was they can continue to do the transformation at the front-end so that they can also change their business model. They can reimagine their business models. So, in that scenario, every client is at a different phase of their transformation. I mean just to give you an example, there may be a particular hotel chain that maybe doing contactless implementation across their number of hotels, which could be running into thousands, but they may have done it only say 500 as of now, but they cannot stop that.

They need to go on because each of these transformations need to be taken into completion. So that is where I feel that, today, that is something which we must acknowledge. Our view from basically working with the clients that we have in our portfolio is everybody has had a very different phase of transformation, and they will continue their transformation. There can be some temporary slowdown, but they cannot derail their transformation from the journey they have embarked on. And the only thing that can happen is, in some situations, maybe they will have to find those dollars also in some way.

And that is where the opportunities of cost optimization also come in. And that's what we talk about in terms of dual behaviors where you want to take cost out of the system, create more efficiencies and divert the same dollars into fueling the transformation, which has to be completed, which has been embarked on. I think that's what is going on right now, and that's

what we anticipate will be the behavior for some time. But at a broad level, what we have seen in the last 2 years during the pandemic is a lot of discretionary spend, which –kind of was never seen before.

Probably that discretionary spend, again, it can relate to the transformation. That will probably, in specific cases, slow down a little. But in those cases, there should be some way to finding those dollars to continue those engagements on the transformation. Venu, do you want to add anything?

Venu Lambu: No, DC you've covered it very well. It's just that I want to sort of clarify that the technology was not bought at any cost, at any point of time. And I think there is always the right value that was created. So, I just wanted to clarify that.

Debashis Chatterjee: Technology is an enabler.

Vinay Kalingara: The next question is from the line of Dipesh Mehta.

Dipesh Mehta: A couple of questions. First, earlier, you indicated about Top 100 clients contributing 90% in revenue. What changes we made at account-level planning perspective in terms of empowering account manager, whatever you can share with us, what changes we made in this last 2, 3 years to drive better client intimacy, drive better client mining? And how it is playing out for us? And what changes, tweaking you made? That is question one.

Second question is about deal pipeline. Let's say we have now a record closure. For last few quarters, deal closure remained healthy. How is the deal pipeline shaping up? Whether we are seeing the deal pipeline getting into a declining trend or maybe stabilizing trend rather than growth trends? If you can provide some sense about how deal pipeline is shaping up? And to some extent, related question is about pricing trend. If you can help us understand how the pricing is helping.

Debashis Chatterjee: So let me just start off with what we have done. First of all, we don't specifically call out top 100. We just said 'focus 100'. At any point of time, we feel these are the 100 accounts where we need to focus, and we need to cross-sell and up-sell into those accounts, leveraging the service line sales capabilities that we have built over the last 2, 3 years. And we feel that there's significant headroom in terms of going and cross-selling and up-selling and creating the stickiness with those clients. And that's what we have been doing, and that's how the sales teams have been incentivized.

And parallelly, what we are also doing is, and if you have been following us for the last 3 years, our number of clients that we have been supporting has been coming down. And one of the reasons is that we have been doing a long tail rationalization at the same time. And just to share with you the number of clients we had when the management change happened was in the range of around 360 plus. And almost 50% of those accounts belonging to the long tail have been rationalized. But at the same time, we have been adding a lot of strategic logos instead of that.

So, at this point of time, it's around 270-plus active clients. The strategy has been, rationalize the long tail over a period of time. We don't need to kind of set a timeline and do it because when we rationalize a long tail, we're also quite considerate that clients should not get impacted because we have been supporting them. Take those efforts and move those efforts into mining the focus 100 accounts.

And that's why you see that the focus 100 accounts are able to contribute to almost 90% of the revenues. That's the way we have been doing. It's a very simple strategy, and it's disciplined execution by the sales and the account teams, and I think that is working out well. Venu, do you want to add anything? And if you can just get into the deal question.

Venu Lambu:

Yes. Probably I'll just comment on the pipeline part of the question as well. Just one additional commentary to the point that DC said is that, look, the clients want to buy solutions, right? And if clients want to buy solutions, your go-to-market team should be equipped to connect the dots to create solutions, and that's where the point of what DC mentioned about having a vertical sales team, which focuses on industry context and bringing the industry solutions and you have the service line or the horizontal sales team, which comes together, and they go together to the customer. With the complementary skill set, they're then able to connect the dots and also deliver the business context.

And that's really been our biggest secret sauce, if I may say, to actually cross-sell and up-sell and grow these 100 accounts. With regard to the pipeline, we're seeing an increased traction in demand. Overall, at an aggregate level, if I look at it, while there may be pockets of softness to the point that DC mentioned in the opening commentary as well. But at overall level, the demand still is positive.

Dipesh Mehta:

There was one question on pricing?

Venu Lambu:

Sorry. Look, the pricing, as we mentioned in Q4 as well, for the niche skills in fact, full of last year, for the niche skills, we were able to get some positive price change or increase, on certain skill sets and the appetite to actually pay a premium price for those niche skills, it's still there. But I think for most of the customers we covered it in the last year. But we don't see any significant downward pressure on the price as such at the moment. But the cost saving mandate is always there, right?

It was there during pandemic also. It's just that it didn't come out much in the front. But now because of the inflation and potential recession people are talking about, there's always that cost-saving mandate sort of, coming to the top of the agenda. But that doesn't necessarily mean that it's going to put pressure on the price. You address the cost saving through more than one way. Productivity, automation, bringing solutions, which can modernize the legacy technology, moving to cloud. All those things will help you to get the cost savings to the customer.

Dipesh Mehta:

Understood. If I can squeeze one question. What would be the effective tax rate if Vinit can help us...

- Vinit Teredesai:** Yes. So, our effective tax rate should be in the range of 25% to 25.5% going forward.
- Vinay Kalingara:** The next question is from the line of Manik Taneja.
- Manik Taneja:** DC, I just wanted to pick your brains about the fact that while we've continued to hire a significant number of freshers through the last 5 to 6 quarters, our utilization rates continue to be fairly sticky. And despite the fact that, across the industry and including for us, we've seen this shift towards more offshore delivery.
- So just wanted to get your thoughts as to what's driving this phenomenon, our ability to essentially keep utilization rates high despite hiring a large number of freshers? Because for peers, we are seeing some cool off in terms of utilization because of the fresher bench, but we do not see something similar happening for us.
- And the second question was for Vinit. Just wanted to understand how should we be thinking about our DSOs going forward? You've done a fairly good job in terms of cash collections in the current quarter. Should this be the new level that we should probably think about?
- Debashis Chatterjee:** Look, Manik, I think it's all about how do you plan and execute. So, if there is something that we have done well as a team, is our ability to plan and execute to the plan. And even on the fresher standpoint, first of all, we have a very clear view in terms of how many freshers we can train and absorb in a particular quarter. And when you train and absorb, we are also able to manage the skills in such a way that we can get them deployed in the right way, in the right engagement.
- I think that's all we are doing. And it's not to say that we will always; there could be some issues in some quarters. But at a broad level, I would say that the team is doing a phenomenal job in terms of staying focused. And it's just a disciplined execution. First of all, we did not have a very robust freshers intake program. We have done a lot of work. We have a new CPO who has come on board, who has been helping us in terms of the entire fresher strategy.
- And once the plan has been in place, we are also putting the skilling program in place, the training program in place so that we can absorb them into the projects in the most effective way. That's all we are doing. I don't think there is anything different that we are doing. And if we can continue doing that, we'll get the same results as we go forward.
- Vinit Teredesai:** Yes. And DSO, our cash collection machinery is working absolutely to its best, I would say, this is a good benchmark for us. Our endeavor will be to at least sustain this if we can't beat this. But honestly, if I had to make an assessment even if we are able to sustain our DSO below 60 days, I think so that will be a good outlook to consider going forward.
- Manik Taneja:** Sure. And one last clarification. So, in your annual report, you've suggested that you'll be looking to add 30% more freshers in FY23. So, does that mean we'll be probably looking at closer to 7,500 to 8,000 odd freshers for FY23?
- Vinit Teredesai:** Yes, that's the expectation, right now.
- Vinay Kalingara:** The next question is from the line of Sameer Dosani.

- Sameer Dosani:** Just a question on utilization. Utilization has normalized to 81% levels. Do you see this going back to 84% levels, what we have done in the past? And also, offshore mix - our offshore mix has significantly improved in last few quarters. Do you see this normalization happening as we go forward in the next few quarters?
- Vinit Teredesai:** Yes. So, I would say utilization at this point of time, given the way our fresher program is working, whereby we are able to get people trained and getting deployed into the project and getting them billed. We do believe that utilization, we should be able to sustain around the 80%, 81% level. At this point of time, in the short-term, I don't anticipate it will drop down.
- And from your offshore mix perspective, again, at this point of time, we are not seeing any pressure from the customers saying, have your people returned back onsite in a big way? There is a very pocketed sort of demand that is coming whereby people have to travel back to the onsite locations and work from there. But at this point of time, it's likely to remain within the same range in the short-term.
- Sameer Dosani:** Lastly, one thing we spoke about, this past quarter, that we have a very good visibility over the next few quarters, that is in FY23. Now at the end of Q1, next 2 quarters, how you look at it? Do you see similar robustness in terms of your performance and the demand?
- Venu Lambu:** I think that DC mentioned in the opening commentary that in the near term - and we used that when we spoke in Q4 as well that in the near term, which is essentially the first half, we have done the part first half, if I may say. We are confident of continuing the same growth. But things are sort of changing so dynamically in the macroeconomic level. So, we had to look at it in terms of how these things will come into impacting our clients for the second half. I would probably say for the second half, it's best to take a perspective of being cautiously optimistic. But in the near term, in the first half, we maintained the same commentary as that we mentioned in Q4.
- Vinay Kalingara:** We'll take a final question from the line of Abhishek Shindadkar.
- Abhishek Shindadkar:** Thanks for the opportunity and congrats on a good quarter. Two questions. Venu, you had a comment about pieces of digital transformation could be deferred if required. Can you just elaborate that from the perspective of service lines, to get us a context of what can be deferred and what remains critical? And the second question is on the visibility of the Retail vertical growth in the second quarter in the context that retailers have to be ready for the holiday season. So, what is the visibility there, from that perspective?
- Venu Lambu:** Thank you. Great question. Firstly, with regard to talking about parts of digital, I use the word sprints because I'll probably take an example to explain that. If a client is doing what I call as an omnichannel platform implementation, right? It's a platform implementation to enable the e-commerce whether it's for manufacturing, retail or for any customer for that matter. You start developing functionalities on the platform on an ongoing basis. You develop new features; you develop new experience zones on the platform and so on.
- So there comes a point where either because of the revenue pressure or because of some of the macroeconomic aspects that we spoke of, you have an option of deferring certain features

to be deployed at much later part of the year. That's what I mean deferring set of aspects of digital, spend to the later part. If that is not really business critical, you can actually look at, okay, can I do it 2 months later? Can I do it 3 months later? So, when we spoke about softness in certain areas, this is exactly what's happening. You can think of deferring certain things, but you don't stop it. You just think of doing it at the later stage.

The second is, with regard to the retail aspects of it. Look, absolutely. That's why I don't want to, if you remember, I made a comment saying that the softness is not a sectoral trend that we want to talk about. It's happening in a few pockets. It depends on which business you are in. If you're in a retail business of electronics retail, the way you're going to get prepared for your peak seasons, whether it's Black Friday or Thanksgiving and then to the Christmas is going to be completely different. But if you're in, let's say, in an apparel retail business, you prepare yourself differently. So, I think within the retail sectors, you have different attributes on how these things get done.

And second thing is that it also depends on where the clients' markets are. If the client has a market dependency, let's say, in Russia, as an example, or do they have a supply chain dependency to a larger extent in China, then those are the aspects as well that will impact the particular client. But if a certain client doesn't have an impact either in the Russian market or even the supply chain dependence on China, they seem to be ready. They seem to be in a better shape to actually cater to the peak season or the holiday peak season demand. So, it depends on the subsegment within retail. And second is how their value chain or supply chain is sort of built as well.

Abhishek Shindadkar: That is helpful. And if I can just ask a follow-up to your answer. So based on our retail client portfolio, how much percentage of them, if you can just help us understand, are more aligned to the troubled geography and the supply? Obviously, supply chain would be largely China, but from a geography perspective, any color that you can give?

Venu Lambu: I don't remember the percentage off hand. But I would put it slightly differently, right? If you look at the YoY growth that we have had in the retail, right, the QoQ, sequential, has been a different narrative. But if you look at YoY kind of growth in the retail segment. So, I think at an aggregate level, we should still be able to deliver good value for that sector. But I don't think I have a handy in terms of exact percentage of customers who have China dependency or Russian dependency. But I gave you an example in terms of types of retailers who have that dependency. So, I can't give you an exact percentage on that.

Vinay Kalingara: That was the final question for today. On behalf of the management, thank you all for joining this call and for your continued support. You may now disconnect your lines. Thank you.