

Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of Earnings Conference Call

Second quarter ended September 30, 2022

October 13, 2022

Vinay Kalingara

Ladies and gentlemen, good day and welcome to the Mindtree Quarter 2, FY23 earnings conference call. Please note that this conference call is being recorded.

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 Q2FY23 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 expressed in today's call. 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 pleased to report yet another quarter of robust performance to round off the first half of the year on a solid note.

For the quarter, our revenues were USD 422.1 million, up 7.2% sequentially in constant currency. We have now delivered 7 consecutive quarters of more than 5% growth in constant currency. In line with our goal of profitable growth, we delivered a healthy EBITDA margin of 21% despite having completed our full wage hike cycle during the quarter, as planned. This was our eighth consecutive quarter of more than 20% EBITDA margin. Our order book, comprising a healthy mix of annuity and transformational deals, stood at USD 518 million, up 44% year-over-year. I am particularly pleased to report that our H1 signings crossed USD 1 billion for the first time in our history.

Our industry-leading performance underscores the strength of our strategy and the breadth of our capabilities in addressing the full spectrum of our clients' digital transformation goals ranging from efficiency to innovation. For enterprises across sectors, regardless of where they are in their business transformation journeys, technology-led interventions to improve customer experiences, boost revenues, and optimize costs continue to be integral to growth and competitiveness.

Digital transformation is about much more than technology today. It is increasingly about the differentiated experiences and outcomes that technology can enable across the value chain. A key part of this is helping organizations evolve their mindsets, cultures, and operations in step with their digital ambitions so that they can swiftly adapt to rapid shifts in markets, technologies, and customer expectations. This continuous transformation agenda is largely independent of market cycles and continues to create long-term opportunities for us.

For example, we are helping a leading European financial institution accelerate digital transformation spanning data, process, and technology over the next 4 years. As a multiyear strategic partner, we are helping a global vacation experiences company differentiate itself in

the leisure travel marketplace by building an integrated CRM platform that its marketing, sales, and services organizations can leverage globally. Through our consulting-led approach, we are supporting the metaverse journey of a leading pharmaceutical and biotech multinational as an innovation partner of choice. We have helped one of the largest healthcare services groups in Asia optimize its blockchain-based pharmaceutical supply chain traceability solution with capabilities around electronic product information, cold chain monitoring, and API standardization. We have also enabled the system to integrate with manufacturers, distributors, clinics, and patients across Asia to provide real-time supply chain visibility, which helps combat issues like counterfeit and sub-standard products.

We continue to strengthen our position as a partner of choice with clients looking at digital transformation as an enabler of not just healthier revenue streams, but also increased efficiencies, profitability, and business optimization.

For example, we have been selected by a European security products company as its primary IT partner for a multiyear managed services deal, where we will deliver global cloud and digital workplace transformation services to drive digitalization and standardization across the company. A leading digital marketing and loyalty management company has selected us for a multiyear deal to provide application support, testing, and infrastructure management services across its customer-facing and enterprise applications suite for improving business agility, responsiveness, and outcomes. A global asset manager has chosen us as the preferred partner for a multiyear application maintenance and support program to help it drive business transformation and optimization by leveraging our extensive experience of working with the world's top asset management organizations. A leading hyperscaler has chosen us for a multiyear engagement to provide cloud infrastructure and cybersecurity services globally. As part of an expanded relationship, we are helping a regional care delivery organization in the U.S. build tele-health capabilities and enhance its patient portal.

With that, let me now turn to our Industry Groups.

Our Banking, Financial Services and Insurance business grew 10.2% sequentially and 33.3% year-over-year. During the quarter, we saw balanced growth across existing accounts, recent tier-1 wins, and new logos. Our consulting-led, agile engagement methods as well as our expanding partner ecosystem continue to deliver strong results.

Our Travel, Transportation and Hospitality business grew 8.8% sequentially and 41.9% year-over-year. Our diversification strategy continues to contribute to the growth of this business, as clients increasingly rethink their business models and transform their organizations to deliver differentiated services and experiences.

Our Communications, Media and Technology business grew 4.3% sequentially and 23.3% year-over-year. With our extensive experience in product engineering, we are supporting clients across the entire product lifecycle encompassing design, development, quality engineering, and support.

Our Retail, CPG and Manufacturing business was down 0.8% sequentially and 11.5% year-over-year. On a constant currency basis, the practice grew 2.9% sequentially. While we see

continued demand for solutions to reimagine and enhance customer intimacy, there is now more focus on digitalization of core operations, connected supply chains, and data transformation.

Our Health business continued its strong growth trajectory with a 34.9% sequential and 195.1% year-on-year growth. Our youngest Industry Group has now crossed USD 10 million quarterly run-rate, and expanded its client base to more than 20 leading payers, providers, and medical device companies. By building industry-specific solutions and applying best practices from other industries in the face of growing consumerization across this sector, we are helping clients improve health outcomes and experiences, while reducing the cost of care.

Among our service lines, Customer Success contributed 40.7%, Data & Intelligence contributed 16.1%, Cloud contributed 20.3%, and Enterprise IT contributed 22.9% of our revenue for the quarter. In terms of geographies, North America contributed 78.1%, Continental Europe, UK & Ireland contributed 13.4%, and APAC & Middle East contributed 8.5% of our revenue during the quarter.

Our talented employees continue to power our consistent growth by responding to client needs with extraordinary passion and commitment. We are encouraged by the results of our ongoing efforts to sharpen our employee focus and engagement.

We were recently named among India's Top 100 Best Workplaces for Women for 2022 by Great Place to Work® Institute. This was the second consecutive year that we received this prestigious recognition for fostering gender equality in the workplace. Our diversity & inclusion initiatives also earned us 'Women in Sustainability' award at the ESG World Summit and GRIT Awards 2022 in Singapore.

During the quarter, we onboarded more than 3,100 professionals to close the quarter with a global headcount of more than 38,200. While we continue to be consistent in our pace of campus as well as lateral hiring, we are now looking at our hiring plans from the perspective of the increased capacity and economy of scale resulting from the merger of Mindtree and LTI. We expect hiring to continue at a steady rate, while accounting for talent synergies between the two merging companies. As anticipated, attrition is showing early signs of stabilizing. For the quarter, our LTM attrition was 24.1%. We believe there is room for it to trend down further.

All Mindtree offices are now operational and well over a third of our employees are now working from the office in a staggered manner. We are pleased with the enthusiastic response to our return-to-office program. Our strategy and approach continue to be fully aligned with client needs.

I will now turn over the call to Vinit for Q2 financial highlights.

Vinit Teredesai

Thank you, DC. Good evening, and good morning to everyone on the call.

This was another strong quarter for Mindtree marked by robust revenue growth and resilient margins.

Our sequential revenue growth was 7.2% in constant currency. This was our seventh consecutive quarter of 5%-plus revenue growth in constant currency terms. Our sequential

revenue growth in USD terms was 5.7%. We reported a strong EBITDA margin of 21%, compared to 21.1% in Q1FY23, after taking the full impact of planned wage hikes this quarter. This was the eighth consecutive quarter of 20%+ EBITDA margin. Our resilient margins reflect our robust revenue growth and ongoing cost discipline. The EBITDA margins this quarter had an impact of 240 basis points from the planned wage hikes. This was offset by the absence of one-off expenses of 110 basis points in the last quarter, currency benefit of 50 basis points, and operational efficiencies of 70 basis points. Our reported EBIT margin for the quarter was 19.1% compared to 19.2% in the preceding quarter. Net forex loss for the quarter was 2.4 million USD, compared to a gain of 0.6 million USD in the previous quarter. PAT margin for the quarter was 15%, compared to 15.1% in the previous quarter. The absolute PAT in Q2 was at ₹508 crores, crossing the ₹500 crores mark for the first time. The Effective Tax Rate (ETR) for the quarter was 23.7% as compared to 24.6% in Q1FY23. EPS was ₹30.8 for the quarter as compared to ₹28.6 in Q1FY23.

Our DSO for the quarter continued to remain strong at 50 days for the second consecutive quarter. For the quarter, operating cash flow-to-EBITDA was at 49.1% versus 67.2% in the previous quarter. Free cash flow-to-EBITDA was 38.8% versus 60.7% in the previous quarter. The FCF was lower compared to Q1 on account of higher outflow of taxes in Q2, and capex towards investments and office space. Our robust cash management led to cash and investment balances at 465 million in USD terms. In INR terms, it was ₹3,790 crores compared to ₹3,946 crores in Q1. Annualized return on capital employed (ROCE) for the quarter was 43.1% versus 41.3% in Q1. Return on equity (ROE) for the quarter was 35.6% versus 33.6% in Q1. Our utilization in the quarter was 80.7% compared to 81.2% in the previous quarter. As of September 30, 2022, our cash flow hedges were at 1,867 million USD. Hedges on the balance sheet were 139 million USD.

I now hand it back to DC for an update on our business outlook and the Mindtree-LTI merger.

Debashis Chatterjee

Our strong performance this quarter reaffirms our relevance to our clients across the dual objective of revenue maximization and cost optimization.

While macroeconomic indicators point to near-term softness in certain sectors, we expect it to be transitory and offset by the longer-term need for our end-to-end digital offerings in driving their transformation programs. History tells us that market volatility invariably fuels a surge in demand for technology. The current period of volatility is unlikely to be an exception. With technology now set deeper into business strategies around differentiation, competitiveness, and resilience, enterprises will continue to secure and advance gains from their shift to digital, cloud-driven businesses.

We are confident in our ability to help our clients address their long-term strategic imperatives around delivering future-ready offerings and experiences in a hyper-connected, hyper-automated, and hyper-personalized world.

This will receive further impetus with the coming together of Mindtree and LTI into a scaled up, more efficient LTIMindtree that will operate with a larger, more comprehensive portfolio of global clients, capabilities, verticals, and markets.

We are in the last leg of regulatory approvals and expect to close the merger before the end of this calendar year. Our immediate focus will naturally be on ensuring that the integration is speedy, seamless, and successful, while continuing to delight our clients.

Subject to regulatory approvals, this could well be our last quarterly earnings call as Mindtree. As I look back on the last three years of Mindtree since the change in management, I am filled with immense pride and gratitude for the incredibly talented, passionate, and dedicated Mindtree team that has defied all odds, prejudices, and expectations to consistently deliver industry-leading performance across every aspect of our business even in the face of market vagaries unleashed by an unprecedented pandemic. It is because of this team's unwavering commitment and hard work that we have been able to deliver unmatched profitable growth over the last 12 quarters with a 56% increase in revenue, a 230% increase in net profits, and a 3.7-times increase in EPS. Our outstanding results this quarter further extend this track record of robust growth and profitability, setting the stage for a promising start as LTIMindtree.

I wish to take this opportunity to thank all our clients, partners, analysts, and investors for their support and guidance in helping Mindtree grow from strength to strength over the last three years. Their confidence in our vision and our capabilities has been instrumental in our continued growth and industry-acclaimed excellence. We are relying on the collective force of this trust, goodwill, and collaboration to power the next phase of our growth journey as LTIMindtree, and enable us to turn our shared purpose and values into sustainable, long-term impact for all our stakeholders.

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. Please state your organization's name before asking your question, I request that you each keep to one question & a follow up.

We'll take the first question from the line of Aniket.

Aniket Pande

I just have 2 questions. I wanted to understand the composition mix of your TCv. How is the mix of pipeline in terms of composition, large, mid and small size? And, have the deal tenure increased and shifted more towards cost optimization deals?

Debashis Chatterjee

So, Aniket, at a broad level, it is a good mix of both - deals towards efficiency or cost optimization, as well as deals towards revenue maximization. And both require a lot of digital transformation capabilities. And specifically, in terms of the TCv that you see in the last 2 quarters, there are quite a few multiyear opportunities that we have closed. And that's why you see the healthy; the robust order book in the last 2 quarters, and that's how we see a \$1 billion order book in the first half of this fiscal.

Aniket Pande

One last question, just wanted your outlook on Manufacturing and CMT vertical and what's the discussion going on pricing front?

Venu Lambu

Sure. With regard to the Manufacturing vertical. As we all know that post-pandemic, there were supply chain challenges, there were challenges of production running full-capacity and so on. I think those issues are behind our back. But having said that, there is always the inflation impacts, and the cost of money changing from where we were last year at the same time. So as an industry, it is going through its own transformation.

But the good news for us, as a technology service provider is that there is so much to do in that sector in terms of digital transformation. Whether it's to enable the products that's got manufactured to the direct consumer or to the customer, or increasing their efficiency in supply chain and so on. So, from that point of view, the opportunity is still very high, and we're very bullish about that sector.

I think the price part of it, it's common across all sectors. I really won't pick up Manufacturing as one where there is a differentiated pricing approach. I feel at all times we have to be competitive to the solutions and to the proposals that we put to our customers. Same thing with regard to the Tech sector as well. The only commentary I would make on the Tech sector is that we are also closely watching that sector. That's the sector which has invested heavily during the pandemic time and post that, and it's a sector which drives a lot of innovation that impacts cross-industry as such. So, we are reading the same kind of developments in certain companies, as you all read about it. I would say, at this point of time, it's just wait and watch in terms of how the Tech sector would sort of respond to some of the macroeconomic headwinds that all the sectors are facing. So, I think it's too early to call out any specific trend or any specific pattern, whether it's regard to the opportunities or even with the price.

Vinay Kalingara

Next question is from Vibhor Singhal.

Vibhor Singhal

Yes. I hope I'm audible. Many congratulations to the entire team for a very strong performance yet again. DC, I have just a couple of questions, majorly related to the Retail vertical and the European geography. So, as you mentioned in the Retail vertical, our constant currency growth was 2.9% on a QoQ basis. But in the last couple of quarters, we had some client-specific issues. So just wanted to basically understand are those client issues behind us? And also, overall, as we look at maybe a possible economic downturn in U.S. or Europe, are we seeing any pushbacks from any of other Retail clients, excluding the ones in which we had a problem?

And on a similar note, I think Europe this quarter reported a significant decline QoQ. Now I understand a large part of it would be cross-currency impact. So, what is the current scenario in Europe and what are clients talking about in terms of basically the current geopolitical scenario developing? Any pushback that we are getting? And how do we see Europe playing out over the next few quarters.

Debashis Chatterjee

Thanks, Vibhor. So let me start and then I'll request Venu to chime in as well. See, as far as Retail and Consumer Packaging Goods are concerned, I think this is one area or one industry group where we had called out about certain ramp downs that we had. And, as you can make out, there's a significant dependency that we have in this sector with respect to U.K. and

Continental Europe. So, whatever you see in terms of these sectors and as you rightly said, the cross-currency movement has definitely not helped us in terms of the topline growth in this area. So that's why you see a muted growth over there.

But the good news is that some of the ramp downs that we had anticipated with some specific clients; I think those are behind us. So hopefully, if things don't deteriorate any further in terms of client sentiments or a recession, etc. I would say, the worst is behind us.

Now having said that, in terms of Europe specifically. What we see right now is there is a lot of caution and there is also, in general, a lot of apprehension. So, it also matters in terms of the portfolio of clients that we manage. So as of now, I don't think there is anything that we have seen, where clients have canceled any of the programs. But in terms of decision-making, we do see a bit of caution as we go along. So, I guess that kind of clarifies your question, but I'll just let Venu add if he wants to add anything.

Venu Lambu No, DC, I think you've covered the points comprehensively.

Vibhor Singhal Sir, Europe, as we mentioned that we are basically seeing some kind of caution in the talks from clients. So, is that also applicable to non-retail clients in Europe? Is it across all the segments in Europe or is it just retail clients?

Venu Lambu I can take that. So, I would say it's actually across select few sectors. I think it's too early to call out across all the sectors, but definitely a few sectors. Manufacturing, Retail CPG, and to some extent, Logistics. These are the sectors which are directly impacted with their cost to serve. When their cost to serve increases, they face the revenue pressure. And when they face the revenue pressure, then they look forward to us to help them out either to enhance the revenue using digital technologies or to save the costs bringing the efficiency gains. So, there are certain sectors, Logistics because of the fuel price and so on. So that's how I would put it, Vibhor, in terms of the select few sectors. It's definitely beyond Retail and CPG.

Vinay Kalingara The next question is from the line of Sameer Dosani, you can go ahead with your question, please.

Sameer Dosani Yes. Congratulations on a good set of numbers. Just to understand this whole utilization part. Our utilization in this quarter has been, if I compare it on a historical basis, it's at a low. So, do you see any benefits from here? That is one. And second, can you give some color around fresher program, how much is the target? And how much have we hired and deployed. If you can just throw some light on that?

Vinit Teredesai Sameer, in terms of the utilization, we have mentioned this in the past that at this point of time, there is no material change that is happening between quarter-on-quarter basis. In some quarters, it sort of drops down and some quarters it is up. But we anticipate in the short run, it will remain in this 80%-82% range from a forward-looking perspective. Can you just repeat the second question.

Sameer Dosani On the fresher, what is the kind of target we have.?

- Vinit Teredesai** The fresher hiring, as well as the fresher deployment continues to remain extremely strong, and that has been one of the successful parameters for us, which has allowed us to keep our cost base low. But I would call out that sectors like CMT, TTH etc, and particularly the contracts whereby we are able to execute it on a fixed price basis, those are the areas where we are able to significantly deploy. In some cases, we have almost 70% of our fresher population getting billed in less than 45 days after the completion of the training program. So, a lot of these things are progressing as per the plan that we had laid down when we started off on our freshers front.
- Debashis Chatterjee** Just to add on to what Vinit said, Sameer, and as I mentioned in my prepared remarks, we are towards the end of the merger. So, we are expecting that we should be able to if everything goes fine with the regulatory approvals at the final leg, we should be able to close out within this calendar year. But keeping that aspect in mind, in terms of our overall talent supply chain, there's a lot of integrated planning that we are doing across the 2 organizations. So that also will kind of dictate some of the strategies as we go forward.
- Sameer Dosani** Understood. And also, just to understand your revenue visibility, if you can just give us some understanding what part of your revenue would be on the basis of past orders that you have received? And what part of the revenue would be something which you have won during the quarter and you're executing during the quarters, so that we get some revenue visibility.
- Venu Lambu** The TCV's is it? Yes. Look, if you look at the book and bill ratio. Historically, we have been around 1.2 kind of a book-to-bill ratio over the last few quarters, and it varies a little bit here and there. But I don't see that book-to-bill ratio has changed. So that sort of sums up that there is no material difference. Though we have clocked a very high TCV number this quarter and for the first half, \$1 billion TCV, but the book-to-bill ratio is the same because of the nature of the project and the kind of scope that you pick up.
- Sameer Dosani** And average tenure has more or less remained same over the last few quarters? Or if you can just give some color?
- Venu Lambu** Well, it's the same. We always had a good mix of a multiyear annuity kind of contracts plus also the transformation projects, which were more based on the scope rather than the duration, right? Some of them were 12 months, 18 months and so on. So that mix also hasn't changed.
- Vinay Kalingara** Next question is from the line of Abhishek Bhandari.
- Abhishek Bhandari** Congrats on a early Diwali and in terms of performance. So, DC, you mentioned multiple times about the advanced stage of merger and likely possibly by December end and also trying to integrate the supply side by working closely with the other group. If you could also help us understand what kind of organizational changes you're planning between the 2 companies? Are you looking at some kind of dual structures to accommodate the leaders of both companies, your thoughts will be appreciated.
- Debashis Chatterjee** So, Abhishek, I may not be able to exactly give you the answer that you are probably asking, but let me tell you that we are in the final stage of the regulatory approvals. And probably, we will not be able to share the exact details until we are closed on the regulatory approvals.

But I can tell you that in terms of how we will be operating, how we'll bring the synergies, and as you know, this whole merger is done with a view that we can create more synergies across the market. So, the organization structure that is required to help us in terms of the synergies, in terms of cross-selling, upselling in terms of industries as well as service lines, all those things are pretty much decided and designed by the steering committee that we had formed. So as soon as the regulatory approvals are all closed out, I think we should be able to share all the details with you. But it is probably not fair to share that at this point of time.

But the good news is we are not very far away from doing that. But I think I just want to give you the assurance that everything is planned out in terms of how we'll be focusing in terms of the market and how it can be helping us in terms of creating more synergies in terms of revenues. And collectively, we'll be having around 700 clients across the 2 companies. And with only a handful of 10 clients which are common. So, which means that the capability or the ability that we'll have to cross-sell and upsell, leveraging the new organization structure will be fairly significant.

Abhishek Bhandari

DC, my last question is around your deal wins. This quarter, it was unusually high. Typically, we normally see a good dip between Q2 and Q1. So, my question is, was there any advancement of certain deal signings or spillover from last quarter? And do you think this run rate, which has now kind of come towards \$500 million mark is sustainable given, as you said, the demand for technology in your view is only increasing and not going down.

Debashis Chatterjee

First of all, let's understand one thing, Abhishek, that when you talk about deals, and again, I had mentioned in my prepared remarks that we typically see 2 types of deals. One is where clients are trying to maximize the revenues, and the other one is clients are trying to look at the efficiency side of their business. And as a partner, I think it's very important that we can play on both the sides. And in the last 2 quarters, we have seen that some of the clients who were focused on more discretionary, more transformation, they are also now talking about how we can look at efficiency side as well. And typically, if you see the deals which are on the efficiency side, they tend to become a slightly longer tenure. So, what you see in the deal mix in this quarter or the last quarter is a good healthy mix of transformation as well as some longer tenured annuity kind of deals which are more on the efficiency side. And now it's something that we feel that we are in a very good position to service our clients in both these areas and the kind of sentiments that we see right now, our view is that at some point of time, clients may look at more efficiency deals as we go along. So, if that continues, then our order book also will remain healthy, but it's difficult to call out exactly. Quarter-to-quarter order books may vary. But we have always maintained that when we look at order book, it's not a quarter-to-quarter phenomenon. It's overall yearly phenomena, and we always look at what is the overall order book for the full year. So, from that perspective, we are confident that we are on track for the full year. Venu, do you want to add anything?

Venu Lambu

No, DC. I think you covered it.

Abhishek Bhandari

Vinit, just one small one for you. I know I'm exceeding my limit. In this quarter, we had 50 basis points currency improvement. That appears to be slightly lower given that most of the larger caps had similar kind of improvement because of currency with a higher European exposure.

So, if you could explain the math around the 50-bps given that U.S. is actually higher than many of our peers.

Vinit Teredesai

Yes. When I say 50-bps; it is the net impact on the P&L. So, on the one side, where the dollar is strengthening against the rupee, you've got a cost benefit. On the other hand, dollar strengthening against some of these European currencies have an impact on your revenue. So the net impact of a negative hit on the revenue plus the positive impact on the dollar strengthening against the rupee has given us the net benefit. That's how that net 0.5% is coming.

Vinay Kalingara

Next question is from the line of Sulabh Govila.

Sulabh Govila

So firstly, on the deal wins, again, which is a very strong number that we've reported this quarter. Just trying to better understand, was there any mega deal included in this number that we provided that led to an uptick, especially in the light of the comments that we made earlier that there is caution in some select sectors in the decision-making. So that caution is something that we've seen in this quarter and that is how the deal is panned out? Or is something which will pan out in the coming quarters?

Venu Lambu

Yes. Look, firstly, in terms of the deals that's contributing to the \$500 million, as I said, it's a very good mix of annuity and transformation deals. And we did announce a few deals as well, both as part of the DC's opening comments as well as even in the various press releases that we did during the quarter. So, it has come across all the sectors, Travel, Hospitality sector. We closed some good deals over there. There are a few deals that was won in the BFSI space, and in the Media and Tech space for us. So, it has been sort of a broad-based. The typical deal life cycle is about 3 to 6 months, depending on the size of the deal. So that means these opportunities started somewhere in Q1 or some of them even started in Q4. So it takes that much of time in some of the sectors to actually come to the closure, sign the contract and then we can announce it as that the deal is closed. So that's really not the reflection of the softness commentary of today. That's the effort that we have put over the last quarter or so to each year.

Venu Lambu

Mega deals. Is that going to continue kind of a thing. Look, I think even DC covered that point, right, there are quite a few opportunities still out there. I find no reason why we can't keep the same deal momentum. Our pipeline is very robust. There is absolutely no change in the pipeline. The pipeline continues to grow. We continue to add various opportunities across all these sectors. So, I'm fairly confident we can continue that momentum.

Debashis Chatterjee

And if I can just add, I think one of the questions Sulabh asked is caution. I think way back in Q4, we were always confident that our H1 looks pretty strong. When we talk about caution, I'm not talking about caution for Q1, Q2. We are talking about referring to the caution that we can see in some scenarios with our clients in Q3. And one of the things that we have always seen that Q3 is, it's a seasonally weak quarter for us because of the furloughs, because of the number of working days being less, and on top of that, we do see some caution where some decision-making is kind of getting delayed. I don't think I will say that clients are canceling their programs, but they are definitely getting a little delayed as we go along. And that's pretty much across multiple sectors. So that's the caution that we are talking about.

- Sulabh Govila** Thanks for a comprehensive answer. Just a quick follow-up. On the pricing of these deals, given that in the past couple of quarters, you have seen some pricing uptick in the newer deals that you've signed. Is it fair to assume that the pricing on deals would be the newer pricing that you've generally seen?
- Venu Lambu** Look, I think for the niche skills, we are actually commanding a good price, I would say. So I don't think there's any pressure with regard to the price points on those digital skills, on the niche skills. So there is also an appetite from the client to actually give us a few extra points on that. And with regard to the areas which are cost efficiency driven, there the push more towards automation, more enhanced productivity, get the right pyramid right and so on. But there is no unit price stress as such.
- Sulabh Govila** Understood. One last question for Vinit on the cost side. So Vinit, on the travel expenses this quarter, so we've been seeing travel expenses going up since the bottom in COVID for the last few quarters. But again, this quarter, there's been quite a bit of moderation from a percentage to revenue perspective. So just trying to understand, is this something which can remain volatile? Or it can continue to go down from here?
- Vinit Teredesai** What you saw in COVID times is obviously not going to be the normal. People will travel back. And only thing what we have mentioned was that the travel won't definitely return back to the pre-COVID levels. So, we are seeing some uptick now. There is definitely, given the competitiveness that we need to maintain, there are places where people need to travel. But at this point of time, the mass travel that we might be anticipating that whether it's happening from India to the Western countries, I don't think so that is happening in such a mass scale. It is happening slowly; it's coming back to normalcy. You may see some uptick, particularly in Q4. I don't think so Q3, you will see that much amount. You also need to keep in mind that the fares are also expensive. So, it's not necessarily a representation of a trend of increasing travel, but the travel cost per person itself is going up because of the generally high fares and hotel charges across, not in terms of any change in trend.
- Sulabh Govila** One last quick one, if I may. So, the outlook for the margins that we maintained at 20%. Given that in 1H, we are at 21% and the wage hikes are already behind. So, what is the sort of caution that we have in 2H, which is baked into the outlook for 20% now?
- Vinit Teredesai** Caution is obviously as DC and Venu mentioned that Q3 is a soft quarter for us. So that's one of the headwinds that we had to be cautious about. Currency continues to be a little bit of volatile, though we are hedging ourselves, but the volatile movements do not necessarily give the 100% benefits what the hedge is supposed to translate into. So those are, I would say, potentially the 2 major headwinds that would come our way. But our endeavor is to constantly keep our cost discipline process strong, continue to find efficiencies and continue to endeavor to sustain our 20% margin even going forward.
- Vinay Kalingara** Next question is from Mohit Jain. You can go ahead with your question, Mohit. We'll take the next question from the line of Dipesh Mehta.
- Dipesh Mehta** A couple of questions. First of all, can you provide some color about BFSI and CMT growth outlook? I think BFSI did very well for us. Even CMT is doing well. But if I exclude top client,

then CMT is showing some moderation for the last couple of quarters. So, if you can provide some sense about these 2 industries, how it is playing out in CMT top client and outside of top clients.

Related second question is about margin. Now if we are looking at some kind of softness in CMT. Do you expect it would weigh on margin because your CMT segment margin is higher than rest of the industries. So, if there is some mix change and whether you expect it to have some implication on margin?

Venu Lambu

So firstly, on the BFSI question, if you sort of look back to our commentary last year and subsequently on the BFSI. It all started with the transformation journey that we undertook 2 years back; sort of relooking at the entire business, redefining the strategy in terms of what propositions we want to carry and what capabilities we want to focus on. And then we also announced some partnerships with platform-centric players in both BFS and in the insurance space. And all that effort, plus investing more on the client-facing roles in some of the focused accounts. And we did announce a couple of large managed services deal also with an asset management firm, a couple of quarters back. So, it's been a sort of a cumulative effort over the last few quarters that has actually transformed the BFSI business for us, and it's at a growth trajectory, right? And this quarter is not just the only quarter where you saw that growth, even if you look back over Q1, BFSI has been a strong performer. And that essentially is a summary with regard to the BFSI question.

On the CMT, actually, if you look at the reported currency, it had a modest growth, right? And if you look at CMT, exclusive of the top client has been a very continuous performer over the last few quarters. In fact, over the last 1.5 years or so, right? So, I wouldn't read too much into 1 particular quarter trend. The fact that it had a significant currency impact as well in the Tech sector. But on top of it, I wouldn't read too much. But having said that, if you could refer back to the commentary that I made a few minutes back that we're just closely watching the Tech sector in terms of what they do with regard to their spend and in terms of their overall strategy to navigate this economic headwind. So, a bit of cautiously optimistic on the tech sector, I would say.

Debashis Chatterjee

And on the margin, Dipesh I mean, as Vinit articulated, I think a little bit of change here and there will not change our strategy in terms of profitability. So I think we are fairly confident that we should be able to continue with our journey of profitable growth. And for every quarter, there will be some business which will do better than the others. Some industry group will do better than the other and that we have to manage through our internal processes.

Vinay Kalingara

Next question is from Nitin Padmanabhan.

Nitin Padmanabhan

And congrats on a solid quarter. So, in the last quarter, you had mentioned about having a very good view of H1, and H2 being a little hazy. And since then, we have actually two things have happened. One is you have had very solid wins this quarter and the headwinds within Retail are sort of subsided. So, I'm just curious to understand based on these 2, shouldn't you have reasonable visibility into the second half? And has the visibility versus what you saw originally has it worsened or is it just pure caution at this point in time? So just little confused based on

what has transpired through the quarter in terms of the positives and versus the commentary that you're suggesting for the second half? If you just give some color there?

Debashis Chatterjee

So let me take a stab at it and I'll let Venu and Vinit chime in. See, as far as the first half is concerned, I think we were very confident that many of the programs that we are working on, which was a mix of annuity as well as discretionary. And some of these transformation programs we have been working on, some of them have come to a closure, and we are waiting for the next set of transformations that the clients are going to embark on. And the reason why we are a little cautious is we do see that, in certain cases, clients are not really moving at the same pace with some of the transformation. But at the same time, the same clients are willing to discuss with us in terms of some of the longer-term annuity, efficiency kind of opportunities, which are more managed services construct. And that's what is reflected in the deal wins. Now as far as Q3 and Q4 are concerned, it is a bit of a caution because every day, there is some news that comes up, which is unsettling. But having said that, our focus is the portfolio of clients that we are managing. Even within the same industry, you cannot say that 2 clients within the same industry are behaving the same way because every client is at a different stage in their journey of transformation. So we work with our clients very closely and we try to understand in terms of what their views are, and that there we see a certainly a level of caution. But the other thing which you have to also appreciate is that Q3 traditionally for us is a quarter which is seasonally soft, and that has got nothing to do with the clients per se. It's more of the furloughs and the number of working days, etc. But having said all these things, the focus that I'm driving right now is there's a lot of attention in terms of how these two organizations will come together. So I would say that Q3, we have been already spending a lot of time, and we also want to make sure that we can get over this integration activities in a speedy manner as possible. So that as we get into the next quarter, we should be or as soon as the Day 1 is announced, which is the day on which LTI-Mindtree comes to exist, we should be able to slowly get back to the same growth momentum that we have been demonstrating as individual organizations. Venu, Vinit, do you want to add anything?

Venu Lambu

Well, I would only say that considering that we had such a great first half. So, we're fairly confident in terms of meeting our aspiration of industry-leading growth for the rest of the year that we have for this. And there are some fundamentals that are very strong here. I mean whether it's our cross-selling and upselling capabilities, our account coverage across our top 100 accounts, the kind of strategic partnership that we have established with hyperscalers and other technology providers or even the investment that we have made in the geographies. Right from Asia Pacific to the Continental Europe and so on and our nearshore centers are ramping up much faster than where they were last year at the same time. So, if you actually look at all that, it is actually built for a very continued growth momentum. This kind of softness; sort of a caution that we are exercising is purely based on what we hear, what we see and what we follow. But as an organization what we are built up for is, actually built up for a very strong growth with all this, and that's actually showing in the results as well consistently over the last few quarters.

- Nitin Padmanabhan** So just two quick follow-ups there. One is, do you have a sense of furloughs. That's sort of an evolving sort of topic. And second, the deal wins that we have won in the current quarter, do you think those actually come through, get converted to revenue sometime this year itself? Or it really moves into the next year? And finally, from whatever I have understood, the worry is more on the base revenue taking some knock because at least over the last 2 years, it never looked like you had a furlough in Q3 in terms of the strength of growth that you had during those quarters. So just wanted your color on these 3 aspects?
- Venu Lambu** We always had furlough, good that you didn't feel it. So that means we actually did a good job in that quarter. And that is going to still be the endeavor and effort so that it's not highly visible. But the Q3 commentary already factors in how much of furloughs we will have. It's not dynamic. We more or less know what is that impact, right? So, there is a certainty of how much of that impact is towards furlough. So from that context, I don't think that we will have any more surprises than what we know today with regard to the furloughs. And with regard to the revenue realization of the orders closed, absolutely yes. Some of them have already started the projects, and you will see those revenue realization happening this quarter as well as for the next quarter.
- Vinay Kalingara** The next question is from Rahul Jain.
- Rahul Jain** Yes, sorry for asking a very similar question. So just to understand a little bit more on the thoughts which Venu shared just a moment back. Is it safer to think in this manner that the macro view is more cautionary the way news flow is in the market? But for this to translate into actually impacting the demand could be some time away so we could do well as a company and maybe as an industry as well, a few more quarters and then probably things could become a little different?
- Venu Lambu** So look, actually, it's a bit of a crystal gazing on that, but I'll still make an attempt. Look, will there be an immediate impact due to these macroeconomic headwinds? Probably not. I mean these are conversations, these are planning and budgeting exercises and especially October, November, December happens to be the time where a lot of our customers who follow the December - January cycle for the year for their financial year they get into the budgeting of their spend as such. What has been budgeted is already being spent for this year, and that will be spent in the Q3 as well. So, it's not going to be very immediate as such. But having said that, we're living in a fairly dynamic world, here and there, you get some bit of headwinds, which you don't anticipate as such. To put it in summary, I wouldn't think that will be an immediate impact as such. In fact, at the end of the Q3, when the budgeting cycle of quite a few of our customers are over, we would actually get a great visibility even for the next year. Because they will start putting their narrative out in terms of how they want to do for the next calendar year or for the next financial year for them.
- Debashis Chatterjee** To add one thing, interestingly, the last 2 years, the clients have really opened up their purses and budgets in terms of doing a lot of discretionary. What is discretionary? Discretionary is nothing but driving a lot of transformation; all led by digital. And this transformation is done to redefine their own business models. Because once the pandemic struck, everybody wanted to truly become digital and redefine the business models. The good news is that many of the

clients; rather all the clients that we support, they are at various phases of their transformation. And it's not this transformation, some of them are long drawn like 4 to 5 years transformation journey.

And when I say caution, some of these clients have actually slowed down on this transformation, but they cannot pause it because if they pause it and if they kill it, then if they will be losing the competitive edge in the market and their own plans will actually go for a toss.

So, I don't think they are going to completely shut it down. But I think what the clients are looking for, and this is something which is interesting, and this reflects in our TCV. Some of the clients are now thinking of given the fact that there is a bit of caution and they are trying to pull back on the discretionary, but they are also discussing with us in terms of what are the things that we can do on the efficiency side. Can we look at cost takeout in a certain fashion? So, the view that I have is that this could be a transitory phase. And IT has always kind of come out stronger through some of these phases because through digital transformation, either you focus on revenue maximization, or you focus on cost optimization or efficiency as we call it. And I think some of the clients are now switching the focus and shifting the focus to more in terms of efficiency because the whole idea is that if you can pull out some dollars by being more efficient, then you can at least continue to fund your transformation. And this is not something that is easily done. But many of our clients with whom we work, they're actually thinking along these lines. And some of the annuity deals that you see in our TCV is a result of that.

Rahul jain

And sorry, if I could add a bit more. So we shared a bit of view in terms of where we could potentially see some weakness on a relative basis built in terms of geography vertical. But is there any other vertical that we could highlight can do much better and cover accelerated trend versus, let's say, last 6 months.

Venu Lambu

I wouldn't pick just one vertical. I think considering where we are with regard to most of the industry growth. I would say there is still a lot of opportunities. I think probably we may be overbeating the softness part of it, but you need to understand that even in those sectors where there is a softness there is a play for us, right, as DC mentioned. Then there is an efficiency play, that's a big opportunity by itself, right, wherever there is a play. I would think of substituting with some other sector if there was no play, right? So, I just want to call that out separately to say that just because there is a softness, that doesn't mean that there is no play for us. In fact, there may be a much bigger play to address that opportunity.

Rahul Jain

Sure. Got it. I understand. And we are up on the time, just a quick one, if I could squeeze in for Vinit. You said about how on a staggered manner, we have weekly working in all our centers. Is there any cost headwind we should count in for in the near term towards that or most of which is already baked in from a run rate point?

Vinit Teredesai

While our return to office is happening in a gradual manner and as we sort of expand and open up new offices, there will be a little bit of a gradual increase in the cost that will be happening. But as I mentioned this also in the past, and our footprint on that office expansion is not on one-on-one mapping as it used to exist in pre-COVID levels. We are also cautiously expanding the footprint in such a fashion that the costs don't go up necessarily in the same fashion. And

within the office also, we have secluded areas whereby people come. It's not like the entire office becomes operational. So yes, you'll see costs going up, not in the same scale as what it was probably in the pre-COVID levels.

Vinay Kalingara

We'll take a final question from the line of Manik Taneja.

Manik Taneja

Congratulations for the solid performance. So, DC and Vinit, I just wanted to pick your brains, was just trying to reconcile the revenue growth that we've seen in the current quarter. Our headcount addition is far more muted than we have seen in the recent quarters, utilization is down, on-site offshore mix is more or less unchanged. We've seen some increase in subcontracting expenses. But what is essentially explaining the significant revenue growth in the current quarter? Is this some realization improvement, pricing improvement that's driving bulk of the revenue growth in the current quarter?

Vinit Teredesai

Yes, Manik, I think so that is one of the important factors that has contributed. We have been doing this pocketed exercise to go and look out for price increases for niche skills across our client base. And obviously, the results come in a scattered fashion. So, this quarter, we have been able to get a good amount of price realizations. Secondly, even if you look at from a headcount trend perspective, it is not necessarily an indication that our trend is slowing down towards hiring. As DC was mentioning, that we are confident of that the merger is likely to get over. We are also now looking at sort of the common bench of resources that will be available soon between both the organizations. So we are confident of the costs. It's a first step towards cost synergies that we intend to achieve as a part of this merger. And hence, there was no change in the trend as well, and I don't consider it as any negative at this point of time.

Manik Taneja

One last clarification on the price increase. Given the fact that the industry essentially has seen significant talent pressure and thereby has pushed customers for price increases. Where are we in that journey as an industry? Do you think this is a dynamic that will still remain, work to the advantage of the players going into the next 6-9 months? Or given the current uncertainty, this may not be a tailwind for the industry?

Vinit Teredesai

It all depends upon the revenue mix and the projects you handle. We are more into the digital transformation and revenue optimization play. And the talent that is available is always in shortage. So particularly a couple of niche skills are always in shortage. So, to that extent, the customer is more interested in getting the work done and making the project live. So, he's ready to pay that extra price because it starts benefiting him at the top line level. On the other hand, our attrition at this point of time, we believe, is showing early signs of stabilization. It's not worsening itself is a good sign. It won't probably come down below 20 in a very quick run but it's not worsening itself from a forward-looking perspective itself is an encouraging sign for us.

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.