Mindtree
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Transcript of analyst call

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Moderator: Ladies and gentlemen, good day and welcome to the Mindtree Limited Q2 FY21 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Ms. Amisha Munvar, Head of Investor Relations at Mindtree. Thank you, and over to you, Ms. Munvar.

Amisha Munvar: Thank you, Janis. Welcome to this conference call to discuss the financial results for the second quarter ended September 30th, 2020. We trust all of you and your loved ones are safe and in good health. Today, on the call, we have with us Mr. Debashis Chatterjee – Chief Executive Officer and Managing Director, Mindtree; Mr. Venu Lambu – Executive Director and President, Global Market, Mindtree; Mr. Dayapatra Nevatia – Executive Director and Chief Operating Officer, Mindtree; Mr. Vinit Teredesai – Chief Financial Officer, Mindtree.

We will begin the call with a brief overview of company's quarter 2 performance, after which we will have the floor open for Q&A. The webcast will be in listen-only mode, but you can post the questions. We will take the webcast question once we complete the questions through the conference call mode. Please note that this call is meant only for the analysts and investors. In case there is anyone from the media fraternity, request you to please disconnect as we just concluded our media briefing.

Before I hand over, let me begin with the safe harbor statement. During the call, we could make forward-looking statements. These statements are considering the environment we see as of today. And obviously, carry a risk in terms of uncertainty, because of which the actual results could be different as outlined in the quarterly fact sheet, which is available on our facts website. We do not undertake to update those statements periodically. Now let me pass it on to Debashis.

Debashis Chatterjee: Thank you, Amisha. Good evening, and good morning to everyone on the call. I trust all of you and your loved ones are safe and keeping well.

The world around us is now slowly emerging from the challenges caused by the pandemic. This is led by the strong belief that technology is the focal point for business continuity and growth. Redefining possibilities is the new normal. I firmly believe Mindtree is well positioned to take advantage of this new normal by building on our existing capabilities and in the process of taking the organization to the next growth path. Within our portfolio, we are increasingly seeing our clients engage with us to enable them to transform their business models such as omnichannel and direct-to-consumer. In Q2, we recorded revenues of US

$261 million, representing a broad-based growth of 3.1% quarter-on-quarter with continued margin of 141 basis points. The all-round performance, along with US $694 million TCV wins for the first half of FY21 demonstrates our approach to balance operational efficiencies and drive profitable growth despite the first half being impacted by unprecedented global events.

COVID-19 tested all of us in many new ways than we had ever imagined before. From day 1, our priority was to be closer and relevant to our clients. Our business continuity plan built on 3 pillars: first, safety of our Mindtree Minds; second, passion for technology; and lastly, remain connected with clients and community. This has helped us reshape and rebuild our more resilient and stronger organization than before. Various people initiatives and facilities were initiated during the quarter to support Mindtree Minds, including their family members. One such key initiatives includes care, through which we connect with Mindtree Minds on a regular basis via a global contact center to check their well-being. We now see our differentiators clearly helping us accelerate the transformation journey for our clients. These include carving out unique business models, delivering tangible outcomes, service offerings allowing to meet end-to-end demand, collaboration with alliances and partner ecosystem, functional and technology expertise, delivery excellence with a secure no-shore model and future-ready Mindtree Minds.

Our clients have been extremely supportive and appreciative of the differentiation we bring on to the table. Together, we are redefining possibilities. I would like to share a few noteworthy engagements that we carried out during the quarter that have benefited our clients immensely. We implemented a reimagined loyalty program for a renowned international luxury hotel chain, which enabled the customer experience and reduced operating expenses. We implemented a digital solution on cloud for a large life insurance provider by enabling e-interviews for life order entry, leading to additional business for the client. We implemented an RPA bot for a Fortune 500 gaming merchandise retailer, enabling quick responses and thus helping in time to market and improve customer experience. Building subject matter expertise and agility in delivery helps us to satisfy our clients. I'm pleased to share our recognition as an expert managed service provider for Microsoft Azure, signifying our expertise in cloud services.

Before I share further inputs for the quarter, I would like to congratulate our delivery and operations team on receiving one of the highest scores for delivering projects seamlessly in a remote working scenario. This was part of a recently concluded project feedback survey.

Now moving on to financial highlights for the quarter:

I am pleased to announce a broad-based revenue of US $261 million for the Q2. Amongst the industry segments, Retail, CPG and Manufacturing grew 7.6%; Travel, Transport and

Hospitality grew 5.9%; Banking, Financial Services and Insurance grew 3.3%; and Communications, Media and Technology grew 0.7%. Amongst the geographies, North America contributed 77.4%, Continental Europe and U.K. and Ireland together contributed 15.4% and Asia Pacific 7.2% of the overall revenues.

Digital is now becoming more pervasive than ever before. Taking cues from our clients' ongoing needs as well as emerging priorities, we have reorganized our capabilities and expertise into 4 service lines. If you recall, I had introduced this in my last quarterly commentary. The revenue contribution from these service lines are as follows: customer success, 39%; data and intelligence, 14%; cloud, 19%; and enterprise IT, 28%. Our strategy to stay close to our clients and grow our wallet share continues to show the desired outcomes in winning annuity deals. We closed the quarter with order wins of US $303 million and US $694 million for the first half of FY '21 across industry segments. This represents a 10% year-on-year growth from the same period last year.

Now let me share some select wins for the quarter:

For a global CPG client, Mindtree has been chosen as a strategic partner for digital transformation. Mindtree will provide managed services to maintain digital platforms, create digital assets and provide insights for real-time analytics for timely decision-making process. Mindtree expanded its engagement with a leading national bank in the U.S. to be its strategic application management services partner to streamline its processes, manage and optimize technology applications, and accelerate its business transformation journey. Mindtree won a multiyear contract with a Swedish medical solutions company to provide SAP application support and migrate the customers on-prem SAP to Microsoft Azure. This is to enable platform-led DevSecOps operating model. For a U.K.'s leading consumer electronics retailer, Mindtree will deliver the end user services by using voice bots, augmented reality, virtual reality capabilities to support remote stores and employees.

On the people front, by the Q2 end, we had over 21,800 Mindtree Minds. Being digital insight, we continued onboarding induction and orientation programs on our virtual platforms seamlessly. We continue to see huge interest by Mindtree Minds in reskilling themselves. Along with demand for technology and domain skills, we also saw a spike in proactive learning in the area of behavior and communication skills, which are needed to stand out in a virtual world. The attrition for the last trailing 12 months has reduced to 13.8% compared to 16.6% in Q1. At the halfway point of FY21, we achieved our commitment of delivering profitable growth quarter-over-quarter and also successfully navigating through the challenging business environment. As we indicated in the last quarter, we have completed our promotion cycle in Q2. I'm also happy to say that we will do salary increments for Mindtree Minds effective Jan 1, 2021. Now let me pass on to my colleague, Vinit, to share other financial highlights. Vinit?

Vinit Teredesai: Thank you, DC. Good evening, everyone. Thank you for joining us today. I hope all of you are staying safe and healthy at this time.

Quarter 2 has been an encouraging quarter in terms of revenue growth, coupled with profitability expansion and having a healthy balance sheet. A broad-based revenue growth of 3.1% and achieving a $51.2 million EBITDA for the quarter is the outcome of being focused and executing meticulously. Our reported EBITDA margin for the quarter is at 19.6% compared to 18.2% in quarter 1. The expansion of 141 basis points in profitability for quarter 2 is a testimony of having governance and driving operational efficiency. Improvement in margin is led by a tailwind of 120 basis points from operational efficiencies and 60 basis points from one-offs of the previous quarter. The headwind of 40 basis points was impacted by forex. The effective tax rate for the quarter is at 26.4% as compared to 26.5% in quarter 1. Net forex gain for the quarter is at $1.6 million. Profit after tax margins for the quarter is at 13.2% as compared to 11.2% in quarter 1. PAT in absolute terms is US $34.3 million, resulting in earnings per share of Rs. 15.40 for the quarter as compared to Rs. 12.90 in quarter 1.

DSO for the quarter is at 65 days as compared to 67 days in quarter 1. EBITDA to operating cash flow conversion for the quarter is at 118.1% and free cash flow is at 114.5%. Our utilization, including trainees increased to 78.8% as compared to 75.5% in quarter 1. Our contractual pricing for the quarter remained stable. A healthy order book of US $303 million for quarter 2 and $694 million for the first half of financial year '21 is the outcome of alignment of our service offerings, namely customer success, data and intelligence, cloud and enterprise IT and helping us to renew as well as gain market share within our portfolio.

As of 30th of September, our cash flow hedges are at US $862 million. Hedges from balance sheet are at US $103 million and optional contracts are US $24 million. The Board of Directors, at its meeting held on October 15, 2020, have declared an interim dividend of 75% that is Rs. 7.50 per equity share on a face value of Rs. 10 each. I now hand over to DC to cover the outlook.

Debashis Chatterjee: Thank you, Vinit. Redefining possibilities, along with our focused initiatives under “help and grow” to mine existing accounts, driving multiyear annuity engagements and collaborative approach of partner-led selling are resonating well with our clients. Our pipeline continues to be strong. Also, with a broad-based growth, we are also seeing a healthy win ratio.

On the demand side, we are seeing momentum, firstly, to help clients from near-term challenges to unlock savings from run spend. And secondly, helping them embark on transformation journey. From a near-term perspective, we see demand in the areas of simplifying operations, cost savings from optimization using automation, agile practices, platform-led approach, vendor consolidation, scaling captives etc. The business transformation acceleration is leading to conversations in the core modernization, cloud migration, touchless and contactless experience, enhancing and embracing the end-user experience. The outcome of these are helping us build strategic long-term relationships and helping us drive annuity business.

While we see green shoots amidst uncertainty in the Travel & Hospitality sector, we continue to see good growth momentum in the other industry segments. Looking at demand traction, resonance of the service offerings and the ramp-ups of the deals won, we anticipate growth momentum for the next quarter, despite it being a seasonally weak quarter. With revenue momentum on track and our continued focus on driving operational efficiencies, our endeavor to deliver profitable growth will continue. I now pass this back to the operator for opening up for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Sandip Agarwal from Edelweiss. Please go ahead.

Sandip Agarwal: Congrats on good execution. Debashis, 2 questions. One is on the order book. The order book while is looking flattish year-over-year, but it's not strong in line with what trends we are hearing otherwise, that is number one. So what is happening on that front, if you can throw some light? Do you expect that to gain significant momentum going forward or you think it will remain like this for a few more quarters? I want only qualitative comment. I'm not asking for a quantitative number. Number two, on the top client itself, in this quarter, it was kind of flattish. So, what is your sense there? What is happening, if you can put some light on that? And finally, on the travel side, what is your expectation, where it will bounce back? And what will be the course of bounce back? I understand it will probably not bounce back to the old level very quickly, but at least some bounce back by when you are expecting?

Debashis Chatterjee: Thank you, Sandip. So let me address the questions. The first is in terms of order book, I think our order book of US $694 million, which is for the first half of FY21, is mostly in areas of cloud, customer success and app modernization. And this is, by the way, almost 10% higher than what the order book was last year. So Y-o-Y is 10% higher. And we see a good demand. Our pipeline is healthy. And with that, we will definitely be, we are optimistic to continue our growth momentum into Q3. As far as the top client is concerned, we continue to see traction in the top client. There was a spike during the pandemic, where every technology client spends additional effort to attend to their clients' needs. So we also played a role in terms of helping the top client's clients. But at an overall level, given the kind of relationship we have with the top client, we pretty much work in all the areas within the organization. We are very hopeful that this relationship is going to remain healthy. And the last thing is on the travel. Travel segment has been the most impacted during this pandemic that I think all of us understand. They were literally in the front line. And many of the clients that we have been working in the Travel & Hospitality vertical, they have been working with us for many years and as a result of which we have also built a lot of good relationship and domain capability with those clients. So our endeavor right now is to stay engaged with those clients. We have not seen any client loss during this pandemic. Of course, the relationships have scaled down because of the COVID. But we feel that it will take quite some time, at least several quarters for Travel, Transportation and Hospitality to come back to the pre-COVID levels. So it's going to be a long drawn affair.

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

Vibhor Singhal: So I have a couple of questions. One is just to delve a bit further on the topline. So basically, as you mentioned that the account continues to look good. So from a near- to a medium-term perspective, do you still believe there is scope for growth in this account? Or do you believe at 30% of the revenue that it is right now, we might see some signs of maybe deceleration of the accounts going out? And secondly on the margin front, we've seen very strong margin expansions over the last 2 to 3 quarters itself. So just wanted to take your, basically, opinion on this one that how much of the margin expansions that we have seen in the last 2 quarters will be sustainable? As you mentioned that from January, we're looking at salary hikes. So do we believe the margins to probably kind of basically dip a bit in the next couple of quarters? That's in the near term. But overall, from a, let's say, 2-year or 3-year horizon, do you believe we still have levers left to expand margins further from the current level?

Debashis Chatterjee: Thank you, Vibhor. See, first of all, on the top client, I would say that the ideal scenario that we expect is that we want to continue the nurture of this top client, and we want to be a true partner to them going forward as well. And from that perspective, growth is always welcome. And that's what we are gearing towards. But you have to also understand that growth doesn't come unless you are really delivering value for the clients. So I want you to understand that there is a lot of value that we create for which it's a mutually trusted partnership. So that's one thing. Second thing is I think I have told this earlier also, my vision is top client should grow. And then if you look at the next 10, 20 client accounts that we have, we have been putting a very specific plan in terms of account mining so that we can grow those accounts as well. Now it is not going to happen in 1 quarter or 2 quarters. It's a journey. And as long as we stay focused in that journey, I think ideal scenario is top client should grow, but the top client percentage should come down because other accounts should grow. That's the vision that we have laid out for ourselves. In terms of margin, I would say that we saw an opportunity of taking the margin up over a period of time because we wanted to come to a specific band, which I felt was doable. So almost 1 year back itself, we formed a program team, and we ran a program in terms of improving the operational efficiencies. I think that program has worked out extremely well. And what you see is nothing but the value that these individuals have added as a part of this program to improve the margin. And I would say that we have now reached a comfortable band, and we are very hopeful that as we go along, irrespective of wage increases and all these things, we want to sustain the margin going forward as well. Vinit, you want to add anything?

Vinit Teredesai: No, DC. I think you have covered. I just will add 2 things. We will continue to look at opportunities to optimize the thing. But as DC rightly said that we have now reached a stage of a comfortable margin and we also want to look at investments for the future growth. So considering all those factors put together, we are confident that we'll be able to sustain the margins in the current range that we have delivered so far.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec Capital. Please go ahead.

Nitin Padmanabhan: I had a couple of questions. So one is I think we have seen a good 190 bps offshore shift this quarter. Now I wanted to understand, is this onetime based on people have returned from overseas locations in the prior quarter? Or do you see this as a sustainable trend going forward? And I had 2 more questions after that, if I may.

Debashis Chatterjee: I will let Dayapatra and Vinit take the first one. Is it okay, Dayapatra?

Dayapatra Nevatia: Yes, sure. So basically, offshore mix is getting influenced primarily due to driving more annuity deals and also due to the environment that we live in. This crisis has shown that work can be successfully done remotely by leveraging collaboration technologies, including even doing new transitions for the deals that we have executed in the last couple of quarters. Going forward, we believe that clients will be more open to letting resources work remotely as the current pandemic has given them the confidence that they can receive secure seamless deliveries from us. Our project feedback survey depicts that confidence that clients have in us. In the recently concluded client satisfaction survey, we have received very high satisfaction rating. And we have not missed a single milestone in last 2 quarters, and that gives our clients confidence that we can carry out work from offshore. And therefore, we believe this is going to sustain.

Nitin Padmanabhan: Sure. That's helpful. The second one was on the order wins we have this quarter. What proportion of that would be net new?

Debashis Chatterjee: Yes. So we don't really call that out. But I would say that there is a tremendous focus in terms of creating more and more annuity deals. So there is a significant portion of those order wins where we are also chasing a lot of annuity. And Vinit, do you want to add any commentary on the net new?

Vinit Teredesai: Yes, sure. I think the net new, as DC mentioned, it's been on 2 aspects. One is the net new, which is the new customers and the new business. And the second is the new business with our existing customers. So both have contributed significantly to the TCV numbers that we have. And when it comes to the TCVs related to the renewals, there have not been like-to-like renewables. In fact, there has been a significant scope that has got changed, added into that as customers are actually leveraging significantly for the digital adoption. So I would say that the TCV is a good combination and a healthy combination of both. The net new; new customers, new business; existing customer, new business and renewable with modified scope.

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

Dipesh: Sir, 2 questions. First is about, even outside of top client, some weakness is visible in our top 10 clients. Sir, can you help us how you're seeing top 10 clients change out for us? And whether any specific weakness or something which one should take note off? Second question is about, can you help us just run through how you see your verticals laid out across 4 verticals, particularly outside of top client? If you can give some commentary on CMT side, if you can provide that commentary?

Debashis Chatterjee: Yes. So as far as the top 10 clients are concerned, you have to understand that given what we have gone through in travel, then obviously, some of the clients also changed their position within the top 10. So it's not exactly an apple-to-apple comparison in terms of which were the top 10 clients earlier and which are the top 10 right now, that's number one. Number two is that there is always some seasonality in every client, specifically in the retail consumer goods. So given that scenario, you will see some variations over there, but our philosophy is very clear. Our philosophy is that we want to really nurture the top 10 clients, and we want to make sure that we are building deeper relationships across the board, not only just the top 10, but all the strategic clients within our portfolio. And in terms of how the market is looking, how the individual verticals are looking, let me hand it over to Venu. He is closer to the market. Let him comment on that.

Venu Lambu: Thanks, DC. And Dipesh, with regard to the question on the top 10 clients moving position, DC has answered it. But just to put an additional commentary to it, it all depends on which sector is actually transforming faster into the new business model. And it's pretty evident that segments like CPG and the segments which are into converse technologies like Communication, Media and Technology are the ones who are actually have a higher appetite for the spend in these times. And then there are also other customers in the different segment, like BFSI are focusing a lot on the cloud adoption significantly. They want to move towards more product IT-centric model. With regard to their spend, as they move their businesses into more digital models, they need different product sets, which enables our digital model. So all that spend is happening in those sectors. So I would say it's a combination of factors and where the spend is moving towards. That has also sort of essentially changed the combinations of the top 10 clients. But these are essentially the areas of spend that cloud data, customer success to make the businesses more digitally resilient. And of course, there is also a divergence of spend that's happening where you can save the spend on the classical run part of it and divert more of that spend towards the digital. Is that fine, Dipesh on this?

Dipesh: No, I was broadly looking about the 4 verticals, where we are, so let's say, how you expect BFSI? What is driving spend in BFSI? And how would that likely to grow? So that is what broad commentary I expected on those 4 verticals where we have presence.

Venu Lambu: Sure. On the BFSI side, the spend is happening more, as I said, in the areas of cloud. Cloud adoption is gaining significant there. The second area that's happening with regard to the insurance spend is on the technology modernization because traditionally, insurance sectors have been a bit slower in terms of adopting the digital initiatives. So that's the second part, areas we're spending. When you look at the CPG sector within our RCM group, CPG is spending a lot on the digital marketing areas on the aspects of direct-to-consumer. All the digital spend towards that helps them to directly reach out to the consumer is the second area where we are seeing on the RCM sector. The third one that we are seeing even in the manufacturing sector is on the one that's happening on the SAP transformation. SAP onto cloud or S/4HANA migration. That's the third spend that we are seeing. And the last one is with regard to the tech and communication and media sectors. In that sector, we are essentially seeing spend, which is more focused towards the digital acceleration of the manufacturing, automation area or their dealer automation, reaching out their supply chain aspects of it, connected supply chain, connected products. So that's an area where we are seeing the spend actually accelerating on the manufacturing side.

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

Madhu Babu: On the second half, I mean, you usually have a higher seasonality in retail etc. So do you expect a 3% kind of growth in 3Q, 4Q as well?

Debashis Chatterjee: Madhu, the only thing we have said that or we can say right now is that given the deals that we have closed, given the TCV that we have, given the healthy pipeline we have, we are confident to continue our growth trajectory. Beyond that, it's difficult to comment right now, but we are very optimistic that all the seeds that we have laid out, that will definitely yield good results. And this is in spite of the Q3 being a seasonally weak quarter.

Moderator: Thank you. We take the next question from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: So, DC, you've completed a year with the company, and you're able to revise the profitability quite well. And of course, growth has been the challenge given the environment also. So just want to understand what's the plan out here going forward for next couple of years to drive growth for the company, where it will come from, will it remain a bit skewed, how it changes, the way you see it? And Vinit, if you could just repeat the margin growth, which you said earlier. I think I didn't get it there.

Debashis Chatterjee: Yes, Rahul. So essentially, if you have heard my commentary earlier, we were very clear that we want to get into a journey of profitable growth. And that's why you see the improvement in margin and growth has also been coming. It's not that we have not been growing. But we recently refreshed our strategy. We have rolled out the new strategy which is 4/4/4, 4 geographies, 4 industry verticals and 4 service lines. We have completely revamped our service line strategy where the entire go-to-market has changed, aligning to each of these 4 service lines. So having done all these things, our belief is that we are now ready to accelerate because we have to change a few things in the foundation in the last several quarters, but we are definitely ready to access it. And if you ask me, where do I expect my growth? I want my growth to be broad-based. Broad-based across the industries that we are focused on, broad-based across the geographies that we are focused on. And of course, service lines are the ones which we have designed in such a way that we are very confident that each of this service line is very critical to our clients. That's all I would say.

Rahul Jain: I think, Vinit, what you shared about the margin growth, which I missed earlier, sorry.

Vinit Teredesai: Rahul, the improvement in the margin was led by the tailwind of 120 basis points from the operational efficiencies, 60 basis points from the one-off for the previous quarter. And there was a headwind of 40 basis points that was impacted due to Forex movement. However, as I said earlier, I think, so looking at our growth trajectory that we have, the operational efficiency program that we have launched and that we have been working since last year, we are confident that we have reached a stage that we will be able to sustain our existing margin. But at the same time, we'll also continue to look at making investments into the business, which will fuel the future growth for us.

Moderator: Thank you. The next question is from the line of Shubham Sinha from Profitmart. Please go ahead.

Shubham Sinha: As you can see, the share of revenue has declined in your major markets, like North America and Asia Pacific. So is there any specific reason for that apart from COVID?

Debashis Chatterjee: Venu, you want to take that?

Venu Lambu: Thanks for the question. Firstly, if you look at North America, the point 1 was more towards the top client growth. And that was answered, Shubham, in the earlier questions that DC answered in terms of the seasonal variation of the top client. So that's one area which has contributed to the growth that you see in North America. In the Asia Pacific context, it is essentially the sort of year-on-year productivity that we had with one of our large BFSI client in the Australia market, that actually is the second reason. But having said that, if you look at our order booking for the second quarter, the significant part of order booking contribution is in the North America market. So I would actually attribute the growth percentage that you see is more from a seasonal variation in North America. It's not an indication of the demand that we actually see. The pipeline is strong in North America. The order booking for the second quarter that we had has a significant contribution from North America as well.

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

Mohit Jain: From the margin perspective, you said that you would like to sustain margins at 2Q levels despite variations, is that correct?

Vinit Teredesai: That's right.

Moderator: Mr. Mohit Jain, we are unable to hear you, sir. Well, as there is no response from the current question, we proceed to the next question from the line of Sudheer Guntupalli from ICICI Securities. Please go ahead.

Sudheer Guntupalli: DC, I'm just curious about your service line segmentation where it mentions cloud contributes around 19% of the revenue. So our topline contributes roughly around 30% of the revenue. And based on my understanding, I believe we do a lot of work in the Azure ecosystem for the top client. And on top of it, we might be doing a lot of work for other clients as well in the cloud ecosystem. So intuitively, we would have expected a much higher share of revenue coming from cloud, also because of the fact some of our large-cap competitors reporting close to 25% of their revenue coming from cloud ecosystem. So how do we reconcile this? Is this just a nomenclature issue or your qualitative thoughts on how you define these things will be helpful?

Debashis Chatterjee: So Sudheer, first and foremost, that's a great question. We don't really have a very consistent way of looking at these definitions. And we also had challenges. And one of the things is we realized that whatever you do and especially, given the fact that Mindtree has been predominantly working on digital technologies, bulk of the work that we do is all digital. Now within that, if you look at customer success, bulk of the customer success work that we do is also the cloud that we are speaking. So we had to come out with a nomenclature. So first of all the nomenclature is available. I think we have included that. But at a broad level, I will say, just to give you an example, as per our nomenclature, for example, if you do a lot of infrastructure work, which is on-prem, which is like a remote infrastructure management, that's part of it. But if you're doing a lot of cloud operate, that's part of our cloud. So, I would say it's more of a nomenclature, but the nomenclature has been detailed and has been kind of fairly detailed so that you can make out what is what. But I will also tell you why we have done this because it is important for you to understand that as we did the strategy refresh, we also work with our clients. And most of the clients, we looked at their buying patterns, what do they buy. They buy based on the stakeholders of the client organization. So if you look at, again, I don't want to kind of get into details, but like customer success. This is something which we are selling to the Chief Marketing Officers or Chief Digital Officers of the client organization. Whereas if you look at enterprise IT, this is sold with the CIOs of the organization. And then if you look at data and intelligence, this is sold to the Chief Digital Officer or Chief Data Officer. So essentially, that's the way we have kind of gone through our segmentation. And we also know that once you can support a client in a specific area, you can very quickly cross-sell and upsell. So that was the strategy that we have adopted. I think it's a nomenclature issue. I mean, we'd be more than happy to clarify later on, but go through the nomenclature, it's very detailed and very, I would, say self-explanatory.

Dayapatra Nevatia: DC, if I can add here. So Sudheer, basically what happens is many of the other IT companies, call the service line as cloud and infra. So as DC was explaining, a lot of infra work that we do, we have recategorized that as enterprise IT. Only the infra work like CloudOps, which is related to cloud-only, we are categorizing under cloud. And therefore, you see the variation.

Sudheer Guntupalli: Sure, sir. That's helpful. And just one question on the top client. So in most of the places, actually, Azure as an ecosystem, the cloud platform is running at extremely high utilization. So the natural expectation is the vendor ecosystem working on that cloud platform should see good amount of momentum for a reasonably long period of time, at least till the time this lockdowns reverse and people go back to work. Is that a fair expectation according to you or the trends you are seeing are any different?

Debashis Chatterjee: No, I think it whether it is COVID or no COVID, I think cloud is the future. Definitely when it comes to the top client and the work that we do on the cloud, I think that's going to be sustainable and that's going to continue with the momentum. But one thing which we probably, I don't know whether we addressed, is that in the top client, we did have a spike in the last quarter. The spike was because when the pandemic hit, there was to be a lot of collaborative platforms to be rolled out, a lot of additional support. So we had a spike, which was purely temporary in nature, which we had to support for some time. And that was purely a Q1 phenomenon. And that was not a big amount as well. But if you see some spike, that was the spike. But otherwise, from an overall stability perspective, we feel very confident of the partnership that we have built and how we add value to our top client, which only means that we are very bullish on the top client.

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

Ashwin Mehta: DC, just one question in terms of your 2 service lines. The customer experience that includes digital channel experience, digital commerce, it includes digital marketing as well as sales force. Ideally, in these times, this service line as well as your cloud service line should have grown, but we see that to be flat or declining. So what explains that?

Debashis Chatterjee: No. So if you look at the service lines, first of all, we have aligned the service lines to, as I explained in terms of what we see in the marketplace. But many of the work that we do within the service lines, there are projects which get over and the next projects also start. But if you close the project in customer success and start another project in cloud, but essentially both are kind of digital technologies. So I think it is important to understand that it is not going to be kind of following linear everywhere. But over a period of time, we should be able to see the balances because most of the new spends, so let's look at it in a different way. If you look at enterprise IT, this is more of a cost play for the clients. Clients are trying to reduce the cost and take the cost out. But when they take the cost out, where do they invest? They're investing in cloud, customer success and data and intelligence.

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

Vibhor Singhal: Sir, just wanted to check on the deals flow momentum going forward, as to how are you seeing the deals flow, the queries from the client and how do you see the deals flow number playing out for us in the second half of the year? And also, in the near-term, due to the proximity to the U.S. presidential election, are we seeing some sort of a pushback from clients in terms of postponing their spend or delaying their decision making?

Debashis Chatterjee: So I'll just start and then I'll hand it over to Venu. Let me answer the second question, Vibhor. The COVID has done one thing, which it kind of stalled all the deal conversations for some time, but we have seen those conversations coming back. And of course, if anything unforeseen or anything, something which is event like the U.S. elections, we have to just wait and watch and monitor the situation and see how it goes. But as of now, I don't think there is anything to be overly alarmed in terms of the conversations that we have been having. And in terms of deal flow, where we are seeing traction, it's pretty much the customer success, data and intelligence and cloud where we see a lot of traction. But let me hand over to Venu for his commentary.

Venu Lambu: Yes. Thank you, DC. Just additional comments are, the pipeline is definitely healthy and we are seeing, as DC mentioned, across all these areas. And also to the point that was discussed just in the previous topic was about, there's going to be a huge spend towards customer success data and so on, and they all go pretty much interrelated. Anybody who spend on digital marketing also ends up doing some business on cloud. Data becomes a glue for both. So that's an area, Vibhor, that is actually seeing a significant traction out there across all the sectors that we're essentially addressing, except, of course, the Travel & Hospitality is pretty much early days of recovery, I would say. But outside of Travel & Hospitality, fairly optimistic about the deal inflows for the second half.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec Capital. Please go ahead.

Nitin Padmanabhan: Just a clarification actually. DC, you had suggested that margins will remain sort of flattish despite the wage increase. I was just wondering what's going to drive that sort of resilience for the fourth quarter despite the wage increase?

Vinit Teredesai: So Nitin, as I mentioned that our operational efficiencies program continues. And we are now at a situation whereby we will continue to get incremental benefits from them. But given the fact that now we have come a long way in terms of improving our margin trajectory for the last couple of quarters, we also want to ensure that we are able to invest back into the business. So we will be doing that investment back into the business. The third lever, obviously, is also the fact that we are also anticipating that on a continuous basis, we expect that we will continue to see profitable growth. And these are the features within all put together, we will be able to absorb the impact of the increment that is being planned for.

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

Dipesh: Yes. Just one question. What would be the CC growth this quarter? And do you expect our Y-o-Y growth trajectory to turn positive in H2?

Debashis Chatterjee: I think the only thing I can say at this point of time is what I said earlier that we definitely want to continue with the growth momentum that we have picked up, and that growth momentum will definitely continue into Q3. So I would say that's the only thing we can say. But with the pipeline looks good, pipeline looks very healthy. So hopefully, things will be positive even going further. But at this point of time, we can only give some commentary about Q3.

Dipesh: What was constant currency growth rate for quarter 2?

Vinit Teredesai: Yes, it was 2.1%.

Moderator: Thank you. The next question is from the line of Diviya Nagarajan from UBS Securities. Please go ahead.

Diviya Nagarajan: I think quite a few of my questions have been answered. Just to go back to the top customer, what kind of contractual visibility do you have for the next 12 to 24 months for this customer? And is that what gives you the confidence that this customer returns to a more steady pace of growth after this unusual dip that we've seen in Q2?

Debashis Chatterjee: Yes. Thanks, Diviya. So every customer goes through their renewal cycle. So the short answer is that we pretty much went through the renewal cycle with this top customer in the last quarter. So that gives us a lot of confidence. And I think it is fair to say that it's a partnership. As long as we are able to show value and deliver the value, I don't see there is any reason for us to be worried about. But having said that, we take this partnership very, very seriously. And even during COVID also, they actually acknowledged the way we have supported them during the pandemic. So Venu, you want to elaborate anything further?

Venu Lambu: Well, just additional comment that I wouldn't read too much into the dip of this quarter as a reflection of anything that we need to be concerned about because we have a great relationship and the conversations are very wide range with the top client. And the top client would innovate its business in more than one area, and we are seeing it over the last few months as such. So I'm absolutely optimistic about the growth that we get from the top client. 12 to 24 months is a bit far away, but I can at least say that for the next couple of quarters, we should be good on top client.

Diviya Nagarajan: Got that. And on margins, I heard you say that you expect to keep your margins flat despite wage hikes. So 2 parts to that. One, what kind of wage hikes are we talking about? And will it be system wide? And part 2, what are the levers that you still can pull to offset those wage hikes?

Vinit Teredesai: Diviya, we'll not be able to talk about specific wage hikes, but it will be in line with what the industry standards are and what the demand pattern is. And considering all the factor of COVID, we think that we'll be able to sustain our margins.

Moderator: Thank you. The next question is from the line of Abhishek Shindadkar from Elara Capital. Please go ahead.

Abhishek Shindadkar: Just a small clarification from Vinit. Vinit, the bank balance, other than cash and cash equivalent number in the cash flow statement on a sequential basis has increased. Your clarification could be helpful. And what exactly is this pertaining to?

Vinit Teredesai: See, as the cash gets generated, it gets deployed into the short-term and ultra-short-term funds. That's an ongoing phenomenon. So there is no trend specifically. It happens as a part and parcel of our day-to-day operations. So in a particular quarter, you may see some uptick or some downtick, but that's not a trend that we should be reading out of it.

Abhishek Shindadkar: Sorry, I was referring to the one mentioned in the working capital.

Vinit Teredesai: Can we take it offline?

Amisha Munvar: I will connect with you offline and discuss on your query, Abhishek.

Moderator: Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Ms. Amisha Munvar for closing comments. Over to you, ma'am.

Amisha Munvar: First, I'll hand over to DC to get some closing remarks.

Debashis Chatterjee: Thank you. Thank you, Amisha. Thank you for joining the call. We are closing the quarter with a broad-based revenue of US $261 million and profitability of 19.6%. This is sheer resonance of being born digital and now becoming the business transformation partner to our clients. With redefining possibilities, we continue to be relevant and close to our existing clients and capitalize other emerging opportunities. To accelerate this, we have strengthened our strategy, which includes: invest and innovate with our alliances and partnerships; stay focused to deliver profitable growth. Thank you. Stay safe and be in good health. Over to you, Amisha.

Amisha Munvar: Thank you all for joining the call, and I always look forward to connecting with you during the quarter. Stay safe and be healthy.

Moderator: Thank you. On behalf of Mindtree Limited, that concludes this conference. Thank you all for joining. You may now disconnect your lines.