Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Fourth Quarter ended March 31, 2020

April 24, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Mindtree Limited Q4 FY'20 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 now hand the conference over to Ms. Amisha Munvar – Head of Investor Relations at Mindtree. Thank you and over to you.

Amisha Munvar: Thank you, Stanford. I welcome you all to this call to discuss the Financial Results for the Fourth Quarter and Year-ended March 31, 2020. Trust all your fellow mates 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; Mr. Dayapatra Nevatia -- Chief Operating Officer and Mr. Senthil Kumar -- Chief Financial Officer of Mindtree.

We will begin with a brief overview of company's Q4 performance, after which we will open the floor for Q&A. The webcast will be in listen-only mode, but you can post the questions. We will take the webcast questions once we complete the questions through the conference call. Please note that this call is meant only for analysts and investors. In case there is anyone from media, request you to please disconnect as we just concluded the media briefing call before this call.

Before I hand over, let me begin with the safe harbor statement. During the call, we could make forward-looking statements. These statements are considering the environment we see as of today and obviously carry a risk in terms of uncertainty because of which the actual results could be different as outlined in our 'Financial Sheet', which is available on our website. We would not undertake to update those statements periodically.

I now pass it on to Mr. Debashis.

Debashis Chatterjee: Thank you, Amisha. Good evening and good morning to everyone on the call. At the outset, trust you and your loved ones are safe and in good health. Financial year '19-20 has been an exciting year at Mindtree. Our client-first approach has resulted in robust revenue growth, and highest ever deal signings for Mindtree. Our relentless focus in operational excellence has helped us further expand our margins in Q4. During the current pandemic situation, leadership team at Mindtree and all Mindtree Minds did a commendable job in navigating through the crisis. We were among the first few companies to make a quick transition to work from home model for almost all Mindtree Minds. Our proactiveness in setting up a crisis management team, operating in a hub-and-spoke model, robust business continuity processes, and infrastructure at Mindtree, ensure uninterrupted services to our clients, while maintaining health and safety of Mindtree Minds.

We have received multiple client accolades for the smooth and seamless business continuity. This is reinforced in our quarterly project feedback survey where we have achieved higher overall score than the last quarter. Our clients were delighted with the way Mindtree teams managed the current pandemic situation to ensure business continuity, keeping health and safety of Mindtree Minds as well as clients.

Considering well-being of Mindtree Minds, we launched various initiatives to connect with them such as creation of Tech and Fun communities and forums where people can seek counsel to their stress, anxieties and fears.

Giving back to society has been in the DNA of Mindtree. In these trying times with our parent Larsen & Toubro, Mindtree donated Rs.20 crores to PM-CARES Fund. Mindtree also contributed Rs.1 crore towards COVID-19 testing kits. In addition, Mindtree Minds with a matching contribution from Mindtree have scheduled various activities to fight the pandemic in partnership with respective state governments of our business presence.

With all these measures, I am extremely proud of all the Mindtree Minds, our partners, and our suppliers, all coming together for the cause of human life and well-being. The collaboration helped us to deliver on our commitments to all our stakeholders.

I would like to extend my special thanks to all our clients for supporting us during this crisis and acknowledging our efforts in delivering seamlessly in this new normal.

Now coming to the earnings update we closed Q4 and the full year with record deal closures and margin expansion. We signed contracts worth $393 million in Q4 and $1.2 billion for the full year, thus underlying our strong transformational capabilities.

Some of the key highlights of the year are as follows: Our approach to carve out strategic engagement team has begun to yield results. We closed the multi-year annuity deal with one of our existing clients and more details will follow later in my commentary. Our client focus initiatives are yielding good results. Our pipeline continues to be healthy, and we continue to see increase in our win ratio. We have made key inroads into cloud and receiving good traction in the SAP areas. New wins reported throughout the year have ramped up as expected. Our annual client satisfaction survey results received in this quarter had all time high ratings. The overall relationship index is better than that of previous years, reflecting increased trust and confidence of clients in Mindtree.

Advisors continue to recognize us as a Market Leader. ISG rated us as a Market Leader in Digital Business Solutions and Services and as an Architect Leader in Digital Transformation. Many more such accolades were received during this quarter, indicating our continued position in the leadership quadrant in our strength areas.

Moving on to financial highlights for the quarter and full year: For the quarter, our revenue is $278.4 million with 1.9% growth in constant currency and 1.2% in dollar terms. For the full year, our revenue is $1.1 billion with a growth of 9.4% in constant currency and 8.7% in dollar terms. I am happy that our profitable growth strategy is resonating well. We could demonstrate improvements quarter-on-quarter. Our focus on cost efficiencies and standardization helped us reach to our desired band of 17% to 18%. Our endeavor is to continue to strengthen on the revenue as well as other operational efficiencies.

Amongst the verticals for the quarter, Hi-Tech and Media grew 5.2% and other verticals declined. For the full year, we saw robust performance across all verticals. Hi-Tech and Media had a strong growth of 13.3% followed by Travel and Hospitality 10.6%, BFSI 4.7% and Retail, CPG and Manufacturing 3.2%.

Amongst geographies for the quarter, US grew 4.1%, Europe declined 8.4%. For the full year US grew 10.7%, India grew 27.4%, rest of the world grew 11.5% and Europe declined 3%.

Amongst services for the quarter, our Digital business grew 1.8%, Infrastructure Management and Tech Support grew 4.9% and Testing 4.3%. For the full year, we had a strong growth in infrastructure Management and Tech Support 15.9% and Digital 15.3%.

We continued our focus on rationalization of tail accounts. We have 307 active clients with the addition of five new clients in Q4. $10 million clients increased by one, taking the count to 23. Our top-10 clients grew 5.2% quarter-on-quarter and 17.3% year-over-year.

On the people front, we ended the year with close to 22,000 Mindtree Minds with a net increase of 430 Minds for the quarter and around 1,800 for the full year. Our attrition has seen a gradual decline quarter-on quarter with LTM being 17.4%. For FY'20-21, our campus onboarding will continue as planned. In terms of lateral hiring, we continue to attract quality specialized talent in emerging technologies like Cloud, Security, etc., and our hiring volume continues to be healthy. In the current business scenario, we continue to attract qualified, acquire and onboard talent via our digital onboarding platform. We have moved campus training to digital orchard platform through which we are continuing our campus training virtually as per original plan. Beyond campus training, Mindtree Minds have completed more than one lakh courses on our signature online learning platform 'Yorbit' amounting to 7.65 lakh hours of learning during the year.

Mindtree was conferred by the Business World Award in two categories -- One for Excellence in Learning and Technology, another one for Excellence in Diversity and Inclusion. Also, Mindtree received an award by Coursera for Best Enterprise Partner.

Let me share some of the new wins for the quarter: Mindtree won the strategic annuity deal with an existing leading real estate services company to implement end-to-end digitally enabled technology services and help them embark on digital transformational journey. This deal is strategic not only from a size perspective, but also encompasses multi-service offerings, cutting across IT lifecycle. The same was announced in one of our recent press releases sometime back. For one of the leading providers of supplemental and life insurance products in North America, Mindtree has been chosen as a strategic partner in a multi-year deal to enhance client experience through digital transformation services for their clients. For a travel, technology leader, Mindtree has been chosen to manage the outsourced product development covering the large portfolio of airlines, hotels, travel agencies and airports. For a leading manufacturer in outdoor maintenance and gardening equipments, Mindtree has been awarded a multi-year application development and maintenance services contract as part of their transformational journey. As part of the deal, Mindtree would also help the client to migrate a data center from a third-party provider to clients own data center. Mindtree will provide application development, testing and support services for a niche technology player that specializes in benefits administration.

Now let me pass on to my colleague, Senthil, to share other financial highlights.

Senthil Kumar: Thank you, DC. Good evening and good morning to everyone on the call. Our fee revenue for the quarter grew by 1.1%. Volumes increased by 4.1% and pricing realization declined by 2.9%. Drop in price realization is due to higher number of days as compared to Q3 and negative impact from cross-currency. Overall, our contract pricing remains stable. Our reported EBITDA margin for the quarter is at 17.1%. Excluding one-time donation to PM-CARES Fund, the EBITDA margin would be at 18.1% as compared to 15.6% in Q3. Improvement in margin is led by 170 basis points from operational efficiencies and 80 basis points from favorable movement in currency. Our continued effort towards margin expansion are yielding good results and visible in our quarterly margin improvements. Our full year EBITDA is at 14%. The effective tax rate for the quarter is at 21% as compared to 23.6% in Q3. For the full year it is at 23.9%. Due to sharp depreciation in INR, we had a net FOREX loss of USD3.6 million for the quarter. PAT margin for the quarter is at 10.1% as compared to 10% in Q3. In absolute terms it grew by 1.8%. For the full year, PAT is at 8.1% as compared to 10.7% in FY'19. EPS for the quarter is at Rs.12.5 as compared to Rs.12 in Q3. For the full year, it is Rs.38.33 as compared to Rs.45.8 in FY'19. DSO for the quarter is at 66-days as compared to 70-days at the end of the last financial year '19. EBITDA to operating cash flow conversion for the year is at 75.7% and EBITDA to free cash flow is at

64.3%. Our utilization including trainees have improved to 76.5% as compared to 75.9% in Q3. Utilization excluding trainees is at 78.8% as compared to 78% in Q3.

Our record contract signing for the quarter is at USD393 million, out of which renewals were USD206 million, new contracts were USD187 million. Contracts to be executed within one year is USD286 million and greater than one year is USD107 million. As on 31st March, our cash flow hedges are at USD979 million and on balance sheet hedges are at USD138.7 million.

The board of directors at its meeting held today recommended a final dividend of 100%, which is Rs.10 per equity share of par value of Rs.10 each, which is subject to approval of shareholders at the coming annual general meeting.

I hand it over to DC to cover an "Outlook."

Debashis Chatterjee: Thank you, Senthil. The current situation is creating unprecedented level of uncertainty. Major economies have virtually come to a halt. Clients in travel, manufacturing, retail verticals are more prone to immediate impact due to drop in demand, disruption in supply chain, etc., Clients in BFSI vertical will reprioritize their discretionary spend in immediate future to conserve the cash. We continue to see traction in Hi-Tech and CPG vertical due to high demand in collaborative tools, adoption of cloud, data, SAP, IT modernization and workplace automation. We are working very closely with our client in helping them deal with current pandemic and have launched several co-innovation initiatives. Overall, we foresee near-term challenges in Q1 revenues.

We have reached the margin band of 17% to 18% and seen a quantum jump in the last three quarters. Considering the current challenges, there will be some pressure on the margin in the near-term; however, our profitable growth strategy remains intact and will continue to drive operational efficiency in our business.

A few reporting changes from next quarter. As a part of strategy refresh roadmap, we will change our reporting for service offerings as disclosed in the fact sheet. We will be repositioning Hi-Tech and Media vertical to Communications, Media and Technology.

Considering the convergence of IND AS and IFRS, we will publish financial results under IFRS on annual basis only from financial year '20-21.

I will now pass this back to the operator for opening up for questions.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Sandeep Shah from CIMB-India. Please go ahead.

Sandeep Shah: The first question comes to the mind is because of the COVID and looking at travel, hospitality being 16% of the revenue and also an exposure to manufacturing and retail, how do you see in terms of the volume or pricing pressure, if you can give color, the pressure in the near-term would be largely through volume cuts or it also a combination of pricing? And directionally, you expect that margin may have a headwind and directionally it may come down in the near-term, so, if you can give some quantitative color, it will help?

Debashis Chatterjee: Thanks, Sandeep. As I said in my commentary that in the near-term we do expect some impact on margin but our overall strategy in terms of the processes that we have put forward has been yielding good results if you have been tracking the EBITDA quarter-on-quarter we have been consistently improving. So we have a very robust process in place where we are very focused in terms of our profitable growth and that strategy remains unchanged. Coming to our clients in specific verticals, I think every client situation is different. And it is probably very clear that every client is going through different kinds of challenges. And we are also discussing with them in terms of various options, how we can help them navigate through this pandemic. So from that perspective, it is a client-to-client situation, but we also feel that clients are appreciative of the way we have handled the COVID situation. In fact, there has been no loss of productivity at all for the clients whom we have been supporting, they are all long lasting clients for a long time Mindtree clients and those things are very well appreciated by the clients. So, we also feel that by staying close to the clients as the things improve, then we should be able to help them as we go along. And last thing I would like to highlight is we do this quarterly project feedback survey. And this survey was launched before the COVID, but kind of ended through the COVID-19 situation. And the score that we got in the feedback is higher than what we got in the previous quarter, which also makes me believe that the clients believe in our overall capability and they have a lot of faith on us. So that also will help us as we now look at the future.

Sandeep Shah: Sir, within your top-10 client list or a top-15 client list, there could be some clients exposed to travel and hospitality. So do you believe any major client-specific issue which can come back in the near-term maybe in the first quarter and the second quarter and it may lead to some serious issues because what we are reading in the media is the clients in the travel may have some going concern issues as well?

Debashis Chatterjee: First of all, definitely there are clients in the top-10 who are in the travel, but it is probably a little too early for me to assess the overall situation because right now we all understand that there will be impact which I think we have also called out that we do see a softness in terms of our Q1 which is immediately known to us, but we need to see how it unfolds and what are the other things that we can do to help our clients by which we can also have a win-win for both of us.

Sandeep Shah: Just on the cost management measures, can you highlight what additional measures we have taken because some companies have taken a call to defer the wage hikes, cease the recruitment. So how are we looking to manage the margins going forward?

Debashis Chatterjee: The standard measures that we always take in terms of cost management are already in place, like for example, if you have been following the number of subcontractors we have been using, have significantly been coming down and that is again nothing to do with COVID, that is something as a part of the strategy we have been adopting. So, some of those standard cost levers we have been following for some time and those things will continue. Coming specifically to anything which is employee or Mindtree Mind action, we felt that let the things calm down and then we will assess and take a decision. But at this point of time we have not taken any decision. And we will also decide that the offers that we have rolled out so far, the campus hiring as well as laterals, we will honor all the offers.

Sandeep Shah: Just two large bookkeeping questions. Can you give some color in terms of the average strike rate of the hedges which are likely to mature in FY'21? And what could be the effective tax rate for FY'21 because it has been coming down on a significant basis QoQ?

Senthil Kumar: Sandeep, if you looked at ETR for FY'20-21 will be in the 26. On the hedges, overall, if you look our portfolio of hedges, one to three years currently stands at Rs.76. But if you look at next one year, it will be around close to 73.5-74.

Moderator: Thank you. The next question is from the line of Sudheer Guntupalli from Motilal Oswal. Please go ahead.

Sudheer Guntupalli: The broad understanding that in a post-COVID work paradigm, companies like our top client should be the net beneficiaries because of the new normal of working from home, reduced travel, so on and so forth. So, what is your preliminary assessment of the areas which will see an increased spending by this particular account over the medium-term and what is our presence and prominence in these spending areas by that specific client?

Debashis Chatterjee: If you look at the work that we do with our top clients, we are very well diversified within that client in terms of the nature of work that we do; we do a lot of work which is annuity in nature, we do a lot of work which is projects in nature, which are in the analytics, in the marketing operations, networking, we do a lot of customer support, technical support. So, I can only say that in my view the top client has been a client who truly believed in digital and I think that belief is reinforced given the COVID-19 situation. So we continue to being a truly digital partner to the client, I think we are in a very advantageous position to work with them and many of the work that we do are leveraging our collaborative tools to enhance workplace automation so on and so forth. So I believe that it is only going to be beneficial for us as a partner.

Sudheer Guntupalli: Second question is the deal wins during the quarter were extremely robust, but some of these deals might have been signed before this entire disruption started. So, what is the outlook now in terms of ramp up of these deals, be it from the client willingness, financial stability standpoint or from our own readiness standpoint in terms of virtual remote onboarding process which may be needed to ramp up?

Debashis Chatterjee: Good question. The deals that we have signed in the past quarter, those deals have been ramping up. The only change is that some of the transition activities that we would have done in person, some of those transition activities are leveraging the digital platforms that.. you need to appreciate one thing that when we say digital, we are also digital inside, I think like a lot of work that we do are leveraging digital platforms within Mindtree. So I would say that the transition activities are going on, in specific situations they may be slowing a little bit, but overall, I do not have any concerns in terms of the transition that is going on for the deals that we have signed.

Sudheer Guntupalli: While our top account has been doing quite well for a few quarters, growth in rest of the accounts were little underwhelming. We have been talking about client derisking. So what is our progress and thought process on this front?

Debashis Chatterjee: The reality is that we have been very focused in terms of client derisking and there have been initiatives that have been put in place. But I think you have to also appreciate that these things would not happen in just one quarter. I can only tell you that there are initiatives that we have launched, there are efforts that are under way and we also feel that some of these clients will be post-COVID probably think of more digital way of working where we can position ourselves in a very advantageous position. So our hope is that with the efforts and the mechanisms that we have put in place, we should be able to change it. It may take a little bit of time, but that is our intention as well.

Moderator: Thank you. The next question is from the line of Sandeep Agarwal from Edelweiss Securities. Please go ahead.

Sandeep Agarwal: You have done extremely well in this uncertain environment also both on the cost management, on the revenue growth front as well. I just wanted to ask a particular question that our Hi-Tech has a very good momentum right now and I do not see any big reason for that to derail primarily because our clients are doing extremely well, so we definitely get some benefit out of this as well. Is there a way we can kind of guide… I am not asking for a number guidance, but I am just trying to understand the losses which you will see in the travel and transportation segment, which right now is very difficult to assess, but do you have a sense that even the worst case scenario travel and transportation losses could be broadly offset with the significant tailwind we are seeing in the Hi-Tech and I believe that Hi-Tech probably will not be challenged because the whole pandemic disruption may actually after three or six months structurally help that segment more, so any sense on that? And secondly, everyone is comparing this pandemic with GFC while the loss of life and other things are much more severe and it is very unfair to compare, but do you see that there is a change in minds of the client from how they perceive IT during GFC time and how they are perceiving now?

Debashis Chatterjee: On the first point that you said, I think you have partly answered the question that you asked. So definitely within our Hi- Tech clients, we do see a lot of more opportunities, let me put it that way, because they seem to be leveraging more digital platforms and digital ways of delivery. And we also feel that there is a good momentum over there… that is one vertical where we can see good momentum. We also see good traction in CPG, for example, the consumer goods vertical where again there is a lot of digital initiatives being discussed. But it may be a little too early to call out what offsets what, because we still do not have a complete picture in terms of how long is this going to continue and what is the new normal and when is the new normal. So I think it is difficult to comment on that, but yes, we understand that we need to have a strategy to kind of offset some of the losses of the gain and that strategy is something that will evolve and that is something we are working on. In terms of specifically as you rightly said, comparing the global financial crisis and this pandemic, it may not be absolutely accurate because one was the financial services practice was in the middle and here started with the travel and hospitality. I am actually thankful to our clients for helping us in terms of executing the BCP and we did it at a very record time, they were all very appreciative, came out in the quarterly surveys, and we received a lot of accolades from the clients. I think they are also very keen to understand the new normal and they are also very keen to bounce back as soon as possible. So, as a strategy, we have been staying very close to our clients, we have been thinking of what are the things we can help in terms of leveraging our digital platforms, where can we get a jump start and we are also ensuring that if we can understand some of the initiatives where it can be a win-win, we definitely want to help them in terms of getting ahead of the curve. That I think is a common thing I had seen in the GFC as well as now where clients are very keen to as soon as this gets over, how can they again get back to normal, but we do not know what is the new normal.

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

Divya Nagarajan: I am trying to understand what your customers are saying in this context. I think in your conversations that you have had, what is the feedback from customers, what kind of activity are you hearing them put on the back burner right now and where do you see acceleration in terms of activity levels? That is part one. And part two I think kind of ties to your earlier question. While there could be some near-term negatives because of the shutdowns and the impact, is your large clients likely benefit from collaboration, platforms and everything else likely to offer any resilience against some of those negatives?

Debashis Chatterjee: Hi, Divya. So let me answer the questions one-by-one. For most of the clients when we started communicating with them in terms of this pandemic, I think the first priority was health and safety and how do we ensure that everybody is safe. And the next conversation was how can you ensure that some of the critical work that we are supporting them that does not get impacted. So I think the first level of conversation was just to ensure that we can provide the BCP, the work from home and all those things. And I think given the fact that the entire organization has been mostly on laptops as a philosophy and we had the securities and all those things built in, it probably did not take a lot of time for us to implement work from home. And I think that is something which almost every client has appreciated. And subsequent to that, again, it is a client-to-client situation, there are certain clients with whom we have been doing some transitions. I think they have been very supportive in terms of helping us continue with the transition. Many of the transitions are happening remotely which is a new thing for the client which is a new thing for us as well, leveraging digital platforms. And that is going on. I would say, again, there is no one size fit all, but there has been a few cases where it has kind of slowed down a little bit, but nothing of big concern for me, whatever deals we have signed earlier, I think the transitions are still going on. And the third thing is what is the new thing that we can talk about. I think that is something which will emerge, but I can see that in Hi-Tech clients and CPG, they are willing to have some conversations in terms of what can we do differently, especially in the areas of collaborative tools, in the areas of virtualization, in the areas of cloud, they know that these are some of the things they want to probably accelerate. And if we have the capabilities in terms of doing that some of those conversations can slowly get started and some of the conversations have indeed started in a small way and I am hopeful that those conversations will accelerate as we go along. But it is a client-to-client situation and there is no two clients who are thinking the same way, the new normal will be defined and we have to just ensure that whatever is the new normal, we are ready for the new normal. Coming back to the specific question on the large clients, yes, given the current situation being a digital-native, if I can say so, and we being a truly digital partner for them, I think it has been a win-win for both of us. But as I answered some time back, we have a very clear strategy to focus on the other clients as well. So, we want the large clients to grow, but at the same time I do not think we can just rely on large clients, we have a robust strategy to ensure that given our capabilities and assuming the fact that clients will try to buy digital solutions more and more I think we are well positioned to cater in the new normal.

Divya Nagarajan: Just to follow up on the cost side, in addition to the regular levers, do you consider anything new, specifically on furloughs as well as employees salary?

Debashis Chatterjee: I think whatever you heard so far is the normal discipline that we have put in place. I think you have heard from me in the previous quarters as well where we put our process in place, we put a discipline way of managing the operational efficiency and what you see is the gain that we have obtained in the operational efficiency using multiple levers and the levers are whether it is utilization, whether it is a subcontractor reduction or it is the pyramid. So all these levers come into play together to give us the overall operational benefit, that has now I would say, it is like the third quarter for me that has already been established discipline, I think that discipline will continue, there may be ups and downs, but that will not go away.

Divya Nagarajan: And I was referring specifically to the near-term where you could see the volume disruptions and demand softness.

Debashis Chatterjee: As I said, we see some softness in the near-term in terms of our overall revenues, at least in Q1 we see some softness and if there are softness, then we can probably see some softness in terms of our margin as well. But in terms of specific with respect to furloughs and all these things, we have deferred all the decisions related to the livelihood of people till we return to some normalcy and because we do not want to cause agony in people's minds, and I think that is the way we have played it and we will also honor all the jobs that offers that we have rolled out, the campus hiring, etc.,

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

Manik Taneja: I had a couple of questions. #1 was that we have been focusing around rationalization of our tail accounts. Just wanted to understand if that has had any impact from a revenue standpoint in recent quarter and is that beneficial from a margin standpoint? The second thing that I wanted to understand from you, you said that you have not seen any significant impact on deal transitions in recent weeks. But have you seen any instances of customers coming back to you and asking for some sort of price discounts?

Debashis Chatterjee: Let me answer the first question. Your first question is regarding the tail accounts. I think again, just like I talked about multiple initiatives, this is one initiative which has been launched some time back where as a part of our strategy, we wanted to rationalize the tail accounts. It has got nothing to do with COVID-19 per se because this has been an ongoing initiative. We also had added five more new clients this quarter. So, rationalizing of tail accounts is again as a process it will go on and we feel that it will be benefiting us in the long run. And I also feel that it is not something which can happen in one quarter or two quarters, but it will happen over a period of time, but that focus will continue. And we formed this strategic engagement team. The view is that we want to have more focus in terms of closing multi-year annuity deals. That is why by rationalizing the tail accounts, we can actually divert the energy in terms of specific accounts where we can close larger deals. So that is the whole initiative that we launched and that will go on and there is no connection with respect to COVID per se. To your second question, as I said, the transition that we have been doing, I do not think there is anything which has been stopped, yeah, as I said, there has been a few transitions which may be going a little slower, but overall I am very happy with the way transitions are going. In terms of whether any clients are talking about rates and all these things, this is like client-to-client, it is a very different situation and there is no one scenario which can describe, but yes, there are some conversations we are having and we feel that in the current situation, I think that is the best way we can help our clients and I am sure that this is something which will help us also in the longer run.

Manik Taneja: Just wanted to understand from you, while we have been doing well in the US geography, in our case, the traction in Europe essentially has been extremely weak, so any possible gaps in terms of our positioning or presence in that geography?

Debashis Chatterjee: There are things that we have been running as initiatives. One of the things is to revive Europe. It will definitely take a little bit of time, but our focus is to how can we grow, but if you look at the overall situation in Europe, the economy of Europe also you need to keep that in mind in terms of what can happen in Europe. So there are macro factors that we need to take into consideration, but at an overall level, yes, we are focused but it will take a little bit of time, but yes, the growth has been mostly from North America.

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

Madhu Babu: Sir, on the post-COVID world work from home can be a new normal in the sector. So would we choose any strategy to disrupt the industry through this model, I mean, would there be a significant traction on work from home even in the post-COVID world and what are your views on that?

Debashis Chatterjee: Madhu, it is too early to say, but I can talk about specifics to Mindtree, I will probably start and I will request my COO, Dayapatra, to comment as well, I think work from home it may sound simple, but you have to also understand that you need to have the readiness to work from home which gives the confidence to clients that yes, they can, because none of these work from home will happen unless the clients also agree to that. Almost 99.5% work from home, I think that is a significant accomplishment. Maybe I can ask Dayapatra to comment on some of those aspects.

Dayapatra Nevatia: Sure. Thanks, DC. So Madhu, work from home, as DC was saying, is not something which is new to Mindtree. In Mindtree, we have been having very strong processes, tools, infrastructure built in and we have had work from home policy for quite some time for our employees where they could periodically opt for work from home. So whether you look at governance mechanisms, project delivery processes, tracking using digital collaboration tools, etc., we have very strong foundation of that. So, yes, in the new normal post-COVID work from home or remote working is going to be a lot more prevalent than it has been. During this crisis, I would say, almost all the customers had the opportunity to understand how the work from home can still deliver the service to them in these kind of tough situations. We have not had a single engagement where we had any delivery issue. So we have been able to successfully deliver in last month and a half since the crisis started. So, I think going forward, clients will be a lot more open to let, if not the entire team, part of the team work remotely from home and some of the people continue to work from office.

Madhu Babu: In terms of 1Q the softness, one of our larger peers was indicating quantums similar to the GFC crisis would imply like 5% to 6% kind of decline. So would that be the worst case for Mindtree? And second thing is that in the new normal CAPEX can also be lower considering that you are going to use this collaboration tools and work from home.

Debashis Chatterjee: Difficult to call out specific numbers, but I can only say that yes, we do see some immediate softness in Q1 and we have to see how it evolves.

Senthil Kumar: On the CAPEX outlook, yes, if you look at the current scenario, cash is king. Everybody will defer CAPEX investment. I think we are cautious on the CAPEX and we will invest only whether it add to the bottom line or top line.

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

Vibhor Singhal: DC, just two questions from my side. One is on the strong deal flow that we reported in this quarter. Would you be able to give some color as to what part of the deal flow that is in the quarter, most probably related to travel segment? And is there a risk to some of those deals which we might have closed in the month of let us say January and February, is there a risk of some of those deals may be ramping down or reduced in scope or maybe being delayed in terms of execution over the next few quarters?

Debashis Chatterjee: The short answer is that the deals that we have signed in this quarter, I do not think there is any risk in terms of those specific deals. As I said earlier in my commentary, there are some transitions which probably just took a little slower pace because of the situation, but then again, they will get back on track. But otherwise, none of those deals that we have closed, I do not see any concern on those.

Vibhor Singhal: Would you be able to share how much part of that came from Travel or do not want to share that?

Dayapatra Nevatia: We do not provide breakup on vertical wise.

Vibhor Singhal: A lot of industry experts have been talking about large companies monetizing their captives in the post-COVID world because of the inefficiencies that they provide and that probably presents an opportunity for IT services players like us and of course other peers as well. So just keeping the recent comment that surveyed about cash is being king, are we open to some kind of these kinds of M&A activity in medium not in near of course, but in medium to longer term future or at this point of time nothing on the cards and we are not even looking in that direction?

Dayapatra Nevatia: If it adds value to the top line, definitely, we are open because we have a good balance sheet and we have a good amount of cash.

Vibhor Singhal: Decent part of our businesses also in Engineering Services business and that largely pertains to discretionary spend that clients come up with. So any color on that in terms of what is the feedback that we might have got from clients, is there any pushback in those spends or as of now nothing much is being talked about?

Debashis Chatterjee: For example, in case of Hi-Tech as well as in case of CPG, where I think clients also realize that probably the new mode of delivery should be more digital platforms and the more digital transformation that they need to undergo, I think there is a good traction there. But in case of some of the other verticals, if I call out BFSI, not to say that things are getting canceled, but things are getting a little deferred. And in other industries also, we see some deferment. But that is more in terms of making sure that everybody is watching and observing how things unfold. So it is not a cancellation, but it is kind of a deferring and see how things normalize and maybe they will again bounce back.

Moderator: Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL Institutional Equities. Please go ahead.

Rishi Jhunjhunwala: Just one question on your segmental profitability. So if we really look at for past two years, FY'19 and '20, the verticals which are BFSI, Retail, CPG and Manufacturing actually had relatively weaker growth rates, but we saw substantial improvement in margins in both these verticals. On the flip side, technology vertical, which has been the fastest growing vertical for you, we have actually seen a significant contraction in EBITDA margins when we compare FY'20 to FY'19. So if you can just give color on all these three verticals in terms of what led to those diverse movements?

Senthil Kumar: Thanks, Rishi. If you see our revenues in Hi-Tech vertical, growth is very high and during the year we had a big transition which had only cost, but not revenue. But if you look from the exit perspective, you could see there is improvement in the margin. On the other side, if you look at BFSI, yes, our margin was lower digit in the past eight quarters, but if you could see last three, four quarters, we could do a lot of more operational improvements. And on the RCM, yes, there are concentrated effort on operational improvements as well as some pricing increase in a few customers.

Rishi Jhunjhunwala: So how do we look at it going forward, in the sense, for example, in technology, is it fair to assume that a lot of the investments went into FY'20 and as a result things will go back to FY'19 levels going forward? And on the other side, in case of BFSI where historically margins have remained fairly low, the current levels could be sustainable?

Senthil Kumar: BFSI current level would be sustainable… Rishi, I would like to look from the exit perspective. I think full year would be very low because we had a very bad H1. And if you look from the exit perspective, yes, on BFSI, it is sustainable. And Hi-Tech if you see from Q2 to Q4 there is a 2% to 3% improvement in the segment margin. So, Q4 margins are sustainable from the segment perspective.

Rishi Jhunjhunwala: Any thoughts on capital allocation in terms of whether we want to increase it because I realize that this year your numbers have actually gone down in terms of dividend payout?

Senthil Kumar: Not really, Rishi. If you look from our dividend payout percentage, last year we had an extraordinary special dividend of Rs.20. If you exclude the Rs.20 special dividend, last year we paid close to Rs.13 and we have matched that now. So if you look from the payout perspective, in fact a little higher than compared to the last year, maybe it is in the range of 35% to 36%.

Rishi Jhunjhunwala: …which is where you want to maintain it going forward?

Senthil Kumar: Our endeavor is to always return maximum to the shareholders. So, we always look how can we return. I think if the profit is increasing and definitely we look out from the payout perspective, yes, we look from time-to-time.

Moderator: Thank you. The next question is from the line of Sumeet Jain from Goldman Sachs. Please go ahead.

Sumeet Jain: So, firstly, wanted to understand could you quantify the demand impact on your revenues in March since we saw the demand slowing down post mid of March both in Europe and US?

Debashis Chatterjee: Sumeet, on the demand side, the only thing I can say at this point of time is there is a softness and I do not want to kind of call out a specific number, I can only say that which are the industries where I can see the softness which is, of course, retail, hospitality, and if you look at Q4 there was no real impact of COVID. But yes, Q1, there is a softness and even within Q1, I expect that we should be able to see something in terms of Hi-Tech and Consumer Goods where there are clients who are very keen to move into more digital.

Dayapatra Nevatia: If I can add, DC, if we look from the demand perspective, our record order booking is the best example of no challenge on the order book. I think we had a good quarter both on the order as well as on the delivery side. So in the Q4 perspective, no impact.

Sumeet Jain: Can you also comment around your order book and the pipeline, how it is shaping up in these last four weeks, so how much reduced intensity are we seeing and then within that what is the kind of a breakup are you seeing around discretionary projects versus more of a managed service or annuity kind of a deal?

Debashis Chatterjee: If I look at the specific order book right now, I think that is well protected. But if I look at some of the projects, where some decisions were to be taken, I think some of those decisions are getting deferred for obvious reasons. But I am hopeful that as things stabilize, we will be able to have those discussions, comments at an appropriate time.

Sumeet Jain: Just a follow up on that, DC. As you mentioned, the demand for collaboration, virtualization tools are definitely going up, so are you able to sign certain annuity managed services deals around these kinds of demands?

Debashis Chatterjee: Going back to what I said earlier and this has been something that I have been saying for a while that we would like to focus more and more on annuity deals. We would like to rationalize the long tail of accounts so that we can focus more on a limited set of clients and go deeper into those clients. So keeping all those things in mind, if you look at what we have shared with you in the commentary, most of them are annuity nature where it is multi-year deals which we are signing. So that is what the focus is and that is what we are working on.

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

Shashi Bhushan: Any impact of supply side constraint in Q4 if you can quantify the same or is it all well with no impact of transition when we say we managed 99.5% work from home?

Debashis Chatterjee: I can only say that the team has done a commendable job. I think we have been very proactive. Again, I do not want to take anything away from our clients. They have been very, very supportive in terms of helping us to do the BCP. On the supply side, I am absolutely proud to say that everything came together and we have been able to implement the work from home, the security controls, the execution in our machines, all the things what do you need for moving towards work from home, they were pretty much ready with us and this actually helped us in terms of implementing. On the supply side, I would say, there was no disruption at all.

Dayapatra Nevatia: Shashi, we have not faced any supply side challenges. As DC was saying, we could move almost all our employers very-very quickly to remote working. We had set up the war room in first week of March itself much before this crisis became really big and government of India announced the lockdown on 24th of March. So we were very well prepared and we had moved already 98% of our people before lockdown was announced. We have not only people who are on the project, but we also migrated to end-to-end virtual hiring process including onboarding and our learning platform also has been helping us to continue our strategy of making our talent future-ready, even our campus training program has moved to the digital platform and there has not been any impact to that training program as well.

Shashi Bhushan: When we are saying soft Q1, does it mean softer than Q4 or does it mean when you decline in line with what our larger peers are saying?

Debashis Chatterjee: I think it will be softer than Q4.

Shashi Bhushan: How do we see margin trajectory for FY'21 at the current currency level because our average for full year would be somewhere around 72 for FY'20 and we are currently at 70 or so?

Debashis Chatterjee: I will let Senthil add, but I will say that if you look at our overall focus has been to get the margin to the band of 17 to 18 at least and I think we achieved that in this quarter and I think we achieved in a very quick time and we have all the mechanisms in place by which we should be able to maintain that as we go along or improve on that further. But there could be some blips in some situations, but overall, we are very confident that we want to be in that range.

Senthil Kumar: If you look from FY'20 perspective, H1 has been a very low margin, but H2 we have picked up. From the full year perspective for FY'21, yes, we will end higher than what FY'20, that is all we can say at this juncture.

Shashi Bhushan: And from the deal perspective, I think one large deal would have cropped up this quarter. So next quarter deal pipeline, do we have something similar or how do we see deal pipeline shaping up for Q1 or maybe H1?

Debashis Chatterjee: As I said, some conversations have been deferred, but we are very hopeful that as things normalize, we should be able to make inroads into some of those discussions that we have been having.

Shashi Bhushan: DSO has been holding pretty good. Any view going ahead how clients are talking about it?

Senthil Kumar: There will be some challenge in the near-term because some deferment in the segment terms and that stuff, but we could maintain 66-days in the last four quarters, maybe next one or two quarters there may be some challenge, but we will continue to ensure that DSOs at a lower level, but there will be some short-term challenges.

Moderator: Thank you. Ladies and gentlemen, we take the last question from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Two questions. First, we are not seeing much impact from COVID-19, but outside of Hi-Tech we are seeing weakness in rest of the three verticals for last two quarters. So, if you can help us understand how one should look growth going forward in the remaining three verticals, Hi-Tech is doing well and I think top clients also one of the fastest for us from business perspective, but remaining three we are seeing weakness for now two quarters in a row? Second question on the service side. ADM and Product Engineering showing signs of weakness. So if you can help us understand how one should look that service line going forward?

Debashis Chatterjee: The point is that if you talk about vertical-to-vertical there is always a quarterly phenomena, some projects will come to an end, and we will wait for the next set of projects to start because everything is not annuity kind of a thing. So I would say that this is more of a client-specific quarterly phenomena when you see this situation, but as we say that our strategy is to get into more and more annuity, our strategy is to work with limited set of clients with deeper relationships. I think those things will help us in terms of changing that over a period of time, but only thing which can change is annuity which we are aiming for, but otherwise, I will leave that purely a quarterly phenomena and a client-to-client phenomena.

Senthil Kumar: Dipesh, if we look from the ADM perspective, our endeavor is to increase the portfolio of services in our clientele list. So if you look from our digital revenue perspective, for example, in Q4 perspective it is close to 10% growth which is higher than peer companies. So, yes, naturally, I think our preference would be to add more digital revenue. From full year perspective, it is down.

Dipesh Mehta: You alluded because of nature of business there are some project-related business exposure. Whether in this time, it can bring additional challenges for us to sustain and maintain growth momentum which we have demonstrated over the last few quarters because this is a tough time and maybe for project business, do you think incremental challenges compared to some of the annuity side?

Debashis Chatterjee: As I said, some of the deals that we are working on, some conversations have been deferred. So there will be some short-term challenges. I do not think the COVID situation is known to anybody in terms of how long it will last and what is the new normal. So clients are talking about new normal. Sometimes clients are opening up the conversations, but many clients are also waiting for things to settle down. So given that scenario, we are quite confident that as soon as the things start getting back to normal, we should be also able to bounce back along with the client, it could be a win-win for us, but beyond that, it is very difficult to say anything else at this point of time.

Dipesh Mehta: One clarification I wanted is part of your disclosure. We have said transaction price allocated to the remaining performance obligation in revenue from operations schedule, which include within one to three year and more than three year kind of revenue break up. Can you help us understand how to read it?

Senthil Kumar: It is more from the FPC, FMC revenue perspective. So there is a disclosure requirement of contracts in which it is beyond one year and beyond two years. So that is more from the revenue recognition perspective.

Dipesh Mehta: So when it shows within one year substantial increase, in a way it reflects your annuity business built up or no?

Senthil Kumar: Yes, annuity business went up. If you see even in the current quarter order book, our contracts with less than one year is USD286 million and greater than one year is USD107 million. So annuity business is picking up.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Ms. Amisha Munvar for closing comments.

Amisha Munvar: I will request DC to read out the closing comments.

Debashis Chatterjee: First of all, thank you for joining the call, really appreciate. So, just want to make some closing comments. I think for Q4, we had a revenue growth of 1.9% in constant currency, and 1.2% in dollar terms, for the full year our revenue is US$1.1 billion with growth of 8.7% in dollar terms. I am happy that our profitable growth strategy is resonating well. We could demonstrate improvements quarter-on-quarter. Our focus on cost efficiencies and standardization helped us to reach our desired band of 17% to 18%. Our endeavor is to continue to strengthen on revenue as well as other operational efficiencies. Our endeavor is to stay close to the clients, be nimble and work with the clients in terms of new offerings,

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retain, reskill talent pool to have smooth continuity to fight the current pandemic and also continue the rhythm of delivering profitable growth. Thank you, stay safe and healthy.

Amisha Munvar: Thank you, everyone. I will look forward to connect with you during this quarter. Stay safe. Good evening.

Moderator: Thank you very much. Ladies and gentlemen, on behalf of Mindtree Limited, that concludes this conference. Thank you for joining us and you may now