

Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Second Quarter ended September 30, 2019

October 16, 2019

Moderator: Ladies and gentlemen, good day and welcome to the Mindtree Limited Q2 FY20 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, 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. Thank you and over to you, ma’am.

Amisha Munvar: Good evening, and welcome to the conference call of Mindtree's financial results for second quarter ended September 30th. I Amisha, Head of Investor Relations. On this call today, we have Debashis Chatterjee - CEO and Managing Director of Mindtree, Pradip Menon - CFO of Mindtree.

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

Now before I hand over, let me begin with the safe harbor statement. During the call, we would 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. We do not undertake to update those statements periodically.

I now pass it on to Debashis.

Debashis Chatterjee: Thank you, Amisha. Good evening, and a warm welcome to Mindtree's Q2 earnings call. I am delighted to share that we have achieved broad-based growth across all our verticals and geographies for Q2. Our revenue is at \$271 million, with a growth of 2.6% quarter-on-quarter and 10% year-on-year in dollar terms. In constant currency terms, we grew by 3.2% quarter-on-quarter and 11.1% year-on-year. This is a clear indication of our growth strategy and robust relationship with our clients, employees and partners, thereby giving us confidence to continue growth momentum for FY20.

The highlights of FY20 Q2 are; my leadership along with the Mindtree team has done a commendable job to drive the business growth. Our approach to implement effective solutions and best practices across all customers have resonated well. And this quarter, we saw a broad-based growth from all our verticals across geographies. On quarter-on-quarter terms, BFSI grew by 2.8%, regaining its growth momentum; Travel & Hospitality grew by 3.3%; Technology and Media Services grew by 3.6%; and Retail, CPG and Manufacturing remained flat in dollar terms and grew 1% in constant currency.

Our core geographies have performed well. U.S. grew 2.7% quarter-on-quarter, and Europe grew 1.5%. On constant currency, Europe grew by 4.3% quarter-on-quarter. Digital continues to grow stronger and is around 2x of Mindtree's growth leading to 18.8% year-on-year. We have 343 active customers with the addition of 14 new customers in Q2.

On people front, we continue to reskill our workforce internally at scale and make them future-ready. During the quarter, 2,20,000 hours of learning and around 25,000 new courses were taken up by Mindtree Minds. Our employee strength is at 21,267 for the quarter, with net addition of 332 Minds. Our attrition on LTM basis is at 16.5% compared to 15.1% last quarter.

We also had some strong multiyear, multimillion dollar wins as follows: Mindtree has been empaneled to provide analytic services to help client for actionable insight in terms of strategic planning for an existing global leader in computer software and technology. For a large technology organization which empowers government to connect with multiple government agencies on a single platform across the globe, this is an engagement that would include cloud migration, cloud operations and security and testing along with 24/7 support for a cloud operation and platform engineering initiatives.

Mindtree has been awarded strategic engagement with the largest P2P FinTech in North American region. Clients will leverage Mindtree's expertise with managed services to run the business and with product development in a DevOps-focused development and operations to enable faster time to market.

Now some points on outlook. In the mix of the transition over the past quarter, I am glad to say that we have continued to retain and engage with all our top clients. My interactions with our top clients and employees in the last 60 days gives me the confidence that Mindtree is rightly positioned for growth. Our contract signings for the quarter are at \$307 million, which is 13.3% year-on-year growth. For the quarter, renewals were \$186 million, new contracts were \$121 million. Our focus is to continue growth momentum for the second half of FY20.

Now let me pass on to my colleague, Pradip, to share a few financial highlights.

Pradip Menon:

Thank you, DC. Good evening all. For quarter 2, our revenue in constant currency grew by 3.2% quarter-on-quarter and 11.1% year-on-year. Our fee revenue grew by 2.6% quarter-on-quarter, volumes increased by 6.8% and price realization declined by 4.2% due to 2 additional working days at offshore and ramping up of new projects. Our overall pricing remains stable. Our EBITDA margin is at 13% as compared to 12.6% in Q1, excluding one-offs, an increase of 40 basis points. 140 basis points improvement is from operational efficiency and 50 basis points from Forex, neutralizing the second cycle of compensation revision of 150 basis points. Effective tax rate is at 26.4% as compared to 26.6% in Q1. The recent amendments in tax rate will have no impact on ETR as we are operating

in tax holiday zones. PAT margins for the quarter improved to 7.1% as compared to 5.1% in Q1. EPS is at Rs. 8.2, quarter-on-quarter increase by 45.6%.

Our DSO continues to be good and is at 66 days. Our EBITDA to operating cash flow conversion is at 67.3%, EBITDA to free cash flow is 56.8%. Our utilization, excluding trainees is at 79% compared to 77.9% last quarter. During the quarter, we have revisited our Forex hedging policy and increased the hedging coverage. As on 30th September, our cash flow hedge book stood at \$130 million, and balance sheet hedges stood at \$98.4 million. The Board at its meeting held on 16th October has declared and approved an interim dividend of Rs. 3 per equity share, par value of Rs. 10 each.

In terms of margin outlook, driving profitability continues to be our priority. Q2 profitability improvement has been in line with our commitment to demonstrate quarter-on-quarter upticks. We continue to see margin expansion during the second half of the year.

Thank you for the attention. I will now hand it back for the Q&A section.

Moderator: Sure. Thank you very much. We will now begin with the question and answer session. The first question is from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul: This is Mukul. I think a good growth this quarter, DC. Just wanted to start with what is the sense in terms of the concerns on client stability after the upheaval last quarter? Do you think all the concerns or all the discussions with client base is complete and you don't see any concerns remaining among your larger client? Or is that something which impacted the 2% to 5% growth this quarter?

Debashis Chatterjee: Yes, thanks, Mukul. So, see, as I walked in, I think my first priority was to provide stability and continuity in the form of clients. So, I did make it a point to meet all the strategic clients of Mindtree. It took a bit of time, but I managed to meet most of them. And I am very happy to say that in all my conversations with the clients, the conversations have been fairly positive. And I could only see that the client reinforcing their confidence on Mindtree, and they are also keen to continue the engagement with Mindtree. And I must say that if there was a bit of a slowdown, but I don't think there is any reason for me to believe that the clients are still concerned with Mindtree as of now. And I must also tell you that when you talk about stability and continuing with the other thing also I focused on, is how do I understand the organization and how do I learn this organization. So, from that perspective, I think it is important for me to acknowledge and thank the leadership in Mindtree who have actually helped me to get me to this client and also ensuring that we cover all the clients at a very quick time. So, overall, I think it's stable, and I feel very positive.

Mukul: Understood. And just a related question. If we look at last year's performance of Mindtree prior to this disruption, the growth was quite good. Do you think that is the kind of growth expectation we should have given that Digital is now a big push of revenue and continues to grow at a scorching pace. What is the visibility over next 2 quarters?

Debashis Chatterjee: Yes. So, Mukul, still initial days for me. I am still understanding things. But as I said, the growth momentum is back. We have a fairly decent deal pipeline. And even if I talk to people around me, I think I can see that everybody is very keen to get back on the growth momentum. But it's probably and we will appreciate, probably little early for me to say something specific. But definitely I'm confident that we will continue to maintain the growth momentum.

Mukul: Understood. And if I may squeeze one final question in for Pradip. Pradip, this quarter, there was about 40 basis point comparable improvement in EBITDA margins. This was something which was expected to be a little bit higher given your aspirations earlier of exiting the year with a better margin profile than FY19. Is that aspiration still there? Or do you think it's probably less realistic and you will probably see a bit of a dip Y-o-Y in terms of your margin profile? And if you can improve it meaningfully, what are the drivers for that?

Pradip Menon: Yes. So, I think there are couple of points I want to make on the margin point. I think the fact of the matter is if you look at the profile of the bridge between the last quarter and this quarter, I mean, you must note the kind of operational efficiencies that we have been able to bring in. I'm not sure whether these 140 basis points is quite a strong set of performance. In fact, that is what has helped us to neutralize the second cycle of compensation increase, which has been in the region of about 150 basis points. So, I think that is a positive for us. The second element that I want to talk about is, we have had, during the quarter, some of the deals, where we are in the stage of ramping up. In fact, what is going to happen in the coming quarter is the fact that those deals which are in the process of ramping up, where there are costs which are incurred in the current quarter will actually borne fruit in terms of revenue in the next quarter. So, without an incremental cost, there will be revenue coming through, which will help in the margin improvement. So, I think that's the second point. So, there are some costs which are incurred in the current quarter, which are not necessarily translated into revenue, which will come through in the next quarter. So, that's the second point. The third point is that from a perspective of how we see margins, we see margins improving quarter-on-quarter. Realistically, as we sit in the middle of the year and where we are positioned, I don't think it is realistic to expect that we will exit with a margin higher than last year. I think that is not a realistic assumption. But obviously you can see here, the commitment from the management and the organization to make sure that Q2 is better than Q1, Q3 will be better than Q2 and Q4 will be better than Q3, so that we exit the financial year with a strong set of margins which will position us well for the next year.

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

Divya: This is Divya calling from UBS. DC, I appreciate that it is still early days for you, but earlier target and the first half run rate, we are still looking at a fairly decent double-digit growth number. Is that something that we hope to achieve in the second half as well? That's question number one. And the second is, you spoke about quarter-on-quarter margin improvement. Could you run us through three or four key levers that you have? And what could be an ideal target multiple for you in the next 12 months or even the medium term?

- Debashis Chatterjee:** Yes. So, Divya, I think I have already answered that. But I'll again repeat the same thing, that as I said, that it is probably too early for me to call out a specific number, but I do see a healthy pipeline. I do see a growth momentum, which is back and I think there is a general belief that we all want to grow. There has been good traction in BFSI for that matter. So, all these things are very positive, but it's probably too early to call out a specific number in terms of growth. And I will hand it over to Pradip on the margin.
- Pradip Menon:** Yes. So, I think on the margin front, there are, obviously, the standard levers of Pyramid, offshoring some of the efforts which happened. And of course, the fact that the growth momentum itself is a mechanism to get back margins. But I think more importantly, as I said, in the current quarter, we have had some of the large projects which are in the phase of ramping up and those will give us incremental revenue in the coming quarters without an incremental cost. And that we see as certainly and as a means of helping us improve margins. So, I think those are the standard metrics, which will continue to drive, the Pyramid, the operational efficiencies. You have seen the kind of improvements we have done on utilization, kind of revenue growth and particularly driving annuity kind of business, and finally ramping up our projects at the top, which will give us an upside on the margins.
- Divya:** And just as a follow-up, could you kind of give us some color on where in BFSI you're actually seeing the momentum because some of your larger peers seem to have seen some deceleration in this space?
- Debashis Chatterjee:** See, it depends on the portfolio that you have and the portfolio where we have seen decent growth is in the insurance part of our portfolio and also some of the tier 2 banks with whom we work.
- Moderator:** Thank you. The next question is from the line of Shashi Bhusan from Axis Capital. Please go ahead.
- Shashi Bhusan:** Congrats on good show on both with the new growth and new deal win. In terms of the new deal win, there was strong downfall this quarter. Was it led by one or two large deal or was it more of similar size deal that drove that momentum?
- Debashis Chatterjee:** See, it is broad based. As I said, the growth has been broad based and even the deals that we have got is fairly broad based. It's not just one deal.
- Shashi Bhusan:** And how is the pipeline qualitatively looks like? Can we have similar kind of new deal win run rate going forward as well?
- Debashis Chatterjee:** So, I think in terms of pipeline, as I said, it's a healthy pipeline. But it is probably difficult to call out at this point of time and there are seasonalities also when it comes to the pipeline.

- Shashi Bhusan:** So, what I'm asking is that this strong deal win during the quarter and previous quarter as well, does it add to the revenue visibility for H2? And can we see some further improvement in the revenue trajectory going in the second half?
- Debashis Chatterjee:** Yes. Again, we need to see how the revenues flow, but it's a little too early. But as we have built the deal pipeline, various deals will actually commence at different points of time. There will be transition involved etc. So, it's a little difficult to call out.
- Shashi Bhusan:** And in terms of our stated margin recovery objective, what are some short-term initiatives and long-term structural changes that we are working on to achieve the book?
- Pradip Menon:** Yes, I think I sort of broadly outlined this in my earlier response. It's a combination of operational efficiencies, like the one we have seen in this quarter in terms of capacity utilization, which is helping us. Obviously, driving the offshore, onshore efforts, which can have an impact and also bringing in more and more of the deals which are more annuity in nature which will give us the benefit. The fact that revenue picks up and momentum returns is also another factor. And last but not the least is some of the efforts that we have been putting in getting ramping up of deals, ramping up of efforts in projects, which will give us incremental revenue in the coming quarters without incremental costs versus the current quarter will be the drivers of the margin improvement.
- Moderator:** Thank you. The next question is from the line of Mohit Jain from Anand Rathi. Please go ahead.
- Mohit Jain:** So, first is on the offshore side. Can you share what percentage is offshore because you mentioned it as a margin lever? And if there is any broader guideline on how much can it be pulled up, let's say 2 years from now?
- Debashis Chatterjee:** Yes. So, I think the offshore, onshore mix has not significantly moved. But what obviously directionally we want to move is in terms of getting more and more of the efforts offshore. There is no specific target that we have set for 2 years hence. That is something that we will be constructing and forming up as part of our next year's planning. But, obviously, the intention is to consistently improve the effort mix more into offshore. And there are some certain initiatives around that. Obviously, at that stage when we are ready to share that with a wider market, we will be able to do that.
- Mohit Jain:** Okay. And the second is on the top clients. Outlook for the top client for next year. And then 2 to 10, there was some softness. So, 2 to 10, what is happening there and what should we expect going forward?
- Pradip Menon:** Okay. I will try and chip in on that one. So, I think on the top client, obviously, there is typically a seasonal period for that and a particular renewal cycle which happens. So, the positive news there is that the bulk of the renewals and most of the renewals are done. So, actually, our visibility is all the

way up to mid of the calendar year next year. And of course, at that stage, we will have to look at what further gain share and market share that we can do. Obviously, there are some other opportunities also with the top clients which are being pursued. So, at this point of time, we are very confident while we have grown very well with the large client, it is the fact that we continue to have enough headroom in that client to grow further. So, we do not see anything that is at this stage holding us back from growing in that particular customer. As far as the 2 to 10, which you talked about certain softness etc., see, I think given the project nature that we have of some of our deals, there will be, a) seasonality and b) closures or ramping downs of deals in a particular quarter, which will then move into the subsequent quarter. So, there could be quarter-on-quarter movements in revenue between some of the clients. At this point of time, we're very confident that the clients that we have are top customers and we have dealt with all the customers as DC mentioned. We are quite confident and we believe that portfolio remains stable and we don't see an issue. There could be, of course, quarter-on-quarter movement because of the nature of the business that we are in.

Mohit Jain: And sir any quantification that you could provide for the cost that you have incurred in second quarter, which you mentioned in the opening remarks as potentially nonrecurring from third quarter?

Pradip Menon: It could be in the region about, obviously it is not exact numbers, but it could be in the region of about 50 to 70 basis points that we could see which has been incurred, which would not be repeated.

Mohit Jain: So, when you said, quarter-on-quarter margin improvement is something you are looking for in the second half. This will be on the reported number, not on the adjusted number, right?

Pradip Menon: We are talking about constant currency improvements.

Mohit Jain: Okay. So, currency depreciation and then that will be on top of...

Pradip Menon: Correct.

Mohit Jain: Okay. But the 50 to 70 built into the outlook?

Pradip Menon: Yes.

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

Madhu Babu: Sir, my question is on the attrition. If you see the quarterly annualized, I think it's around 20%. So, there's a steep jump in attrition this quarter. So, what are the key reasons for that? And other question is on the wage hikes. So, typically compared to other mid-cap, whenever we give wage hikes, our margins drop a bit more drastically. Is it because we have a higher digital talent and high presence in

Bangalore, which is more a heated market in terms of resources? Are there other factors for the steep margin drops when the wage hikes are given?

Pradip Menon: I exactly didn't get the question on the margin point. Can you repeat that question, please?

Madhu Babu: We have a higher impact from the wage hikes on the margins typically compared to other mid-caps, we see a sizable reduction in margins and cost stuff and then we try to pull back. Considering that we have a lot of talent on digital, and most of our offshore talent is in Bangalore, which itself is a heated market for supply side. I mean, you get multiple opportunities for employers who are in Bangalore if you are there in the group skill set. So, is that leading us to give higher wage hikes and to retain the staff and that is actually impacting our margin momentum?

Pradip Menon: No, I don't think that exactly is the reason. Obviously, we have a talent, which is having a significant amount of digital skills, and that makes it more attractive to the larger ecosystem. So, that is a fact. And therefore, that is typically a fact, and that is one of the drivers of the attrition as well. However, from a perspective of margins, we have a choice, of course. Like in company, either we make wage hike in line with the kind of wage hike in the industry, typically offshore is about 7%, onshore is about 3%. That is what we do. And now the choice is between doing that or even higher attrition, which you then need to do with replacement, which could potentially be even higher cost. So, ideally there will be choices you've to make as you go along. And we have taken a choice of ensuring that we at least make sure that we manage the attrition and we also reward the employees who on the Mindtree Minds who have the right skills.

Debashis Chatterjee: Yes. Let me add on to the attrition question that you asked. See, I mean, if you look at the Q1 and Q2 for IT industry, this is the time where you have the compensation revisions, and this is the time when you tend to see a bit of a churn. But if you look at, as Pradip said and we also articulated earlier in our opening remarks that there is a significant amount of digital skills that we train people on. And see, we have a mechanism to reskill people very, very aggressively in emerging technologies. And basically, we want to keep them future-ready from a talent standpoint, from a skills standpoint. And which also means that this becomes a good talent pool to be attracted by startups and product companies etc. And we have to accept that and live with that. But in order to make sure that we have a constantly future-ready talent, we do acknowledge the fact that there will be always some pains but as long as we continue to do that and as long as we continue to do some interventions in terms of ensuring the right attrition that will spike up, I think we are fairly comfortable.

Madhu Babu: Just one more thing on the exit margin. So, last year, 4Q, we had a 12.9% exit EBIT margin. So, any because at least till Q2 it is vague so any indication on what the exit margin we are targeting this year because on that FY21 margins will depend upon?

Pradip Menon: As I said, what we have said in our opening remarks also is that we will improve margins quarter-on-quarter. So, quarter 3 higher than quarter 2, quarter 4 higher than Q3. I am unable to give you an

exact number. That will, obviously, pan out as the year goes. But at this stage, that's the confidence we have.

Madhu Babu: And last one on the 4% realization drop. Any reason for that? Is it some offshore pricing pressure?

Pradip Menon: Yes. So, as I said, again, which I said in the opening message that there is contractual pricing which has remained stable. There are 2 days of offshore, which is extra days that we have worked. And the second is, there are some ramping up of projects, which as I explained, which is hitting the additional number of volumes in terms of ours. And again, you'll see that coming back to normal in the next quarter.

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

Vibhor Singhal: Sir, my question was basically just to prod a bit on what Mohit asked about the top client. So, basically, if you see over the last couple of years, a large part of our growth was driven by very strong performance in the top client. Now for the past 4, 5 quarters, we've seen to have settled around \$50 million, \$55 million kind of a run rate quarterly run rate that I'm talking of for the client. Now I appreciate that you mentioned that you feel that there is still scope for growth in the client that you see and more headroom for growth. But assuming, let's say, if the top client continues to grow at or maybe slightly below the company average, does the deal flow that we have won in the past few quarters and the deals that you're looking at in future, does that give you enough confidence that the non-top client bucket will be able to contribute and drive the growth here after if, for some reason, the scope for growth in the top client comes down?

Debashis Chatterjee: We are talking about too many speculations over here. The growth has been fairly broad based. And the growth has been fairly broad based across industry sectors as well as in geographies. If I look at the deal pipeline, the deal pipeline also is quite broad based. So, given that scenario, I don't think it's fair to say that we are depending only on the top client. And as a part of our strategy, let me also tell you that and as I met all the clients in the last several days I also feel that it is also important for us to focus and mind the strategic clients. And there is a lot of headroom even in those clients as well. So, there are strategies that we will have in place, which will help us as we go forward.

Vibhor Singhal: Sure. That's helpful. As you mentioned, the growth was kind of broad based, one segment which probably stands out with a little lower than growth, of course, was the Retail segment. And I think this week, we have seen across the industry for all the companies that have reported results. And I think there's basically an overhang of the global trade war which is looking on that sector. So, any color on that in terms of the commentary that you're getting from the clients? And do you see that as a potential impediment maybe going forward in the next couple of quarters?

- Debashis Chatterjee:** So, I think it also depends on the portfolio of clients that we have. And if you look at our RCM, the CPG has been quite okay in terms of growth. But you are right, there has been a bit of softness, but this is cyclical and we have to just see how it plays out.
- Vibhor Singhal:** Sure. That's helpful. Pradip, just one bookkeeping question, if I can. You mentioned that there's going to be no impact of the change in tax rate. So, should we work with the 26.5% kind of a tax rate going forward as well? And when do you believe those basically exemptions that we are enjoying, when are they set to basically lapse and then we move to the normal tax regime?
- Pradip Menon:** Yes. So, confirming that, yes, you should work with the similar sort of ETR that we have called out. In terms of when we see that moving, I think at least, it will be around 2 years down the line, when we see this benefit sort of moving the other direction. Obviously, we are fine until, I think, next year to take a review and decide and we will take that call in the next 1 year whether to move to the new regime or not.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CIMB India. Please go ahead.
- Sandeep Shah:** Congrats on a good execution despite challenging environment. Just wanted to understand in terms of the attrition, do you believe most of the challenges to manage the attrition have been largely behind? Or you still believe some work in progress, which we have to do in terms of curtailing the attrition going forward? Because for Mindtree, apart from industry level pressure, there was also a bit of a large corporate event might have led to a bit of an increase in the attrition. Do you believe that later part has been largely behind and it's largely the attrition is now moving in line with the industry in terms of people leaving the Mindtree?
- Debashis Chatterjee:** Yes. See, as you rightly said, when you have this kind of an event, there is an uncertainty and attrition does tend to spike a little. And add on to that, as I said earlier, quarter 1 and quarter 2 are typically the revision cycle, the compensation revision. So, that is also a time when the attrition tends to spike up. But keeping all these things in mind, I personally feel that most of the things are behind us as we get into more stability and continuity and with all the initiatives that we run in terms of how do you manage attrition, how do you rescale people, how do you provide them better career paths etc. So, I think we should be able to get back on track. But as I said, I would also like to say that the focus of the organization is to get our talent future-ready from a skill standpoint and that also kind of becomes the hunting ground which we cannot avoid. But overall, I think we have got enough measures and feel confident about managing the attrition.
- Sandeep Shah:** Okay. Just further to that, in terms of the attrition within senior leadership outside the promoter founder side, is it different than the reported attrition? Is it much lower because of the corporate event, which we have witnessed?

- Debashis Chatterjee:** No. I do not know what exactly you mean. But what I can tell you is that, yes, there has been some attrition at a senior leadership level as well. And again, that is tied to the sequence of events that we had. But at this point of time, I think the stability is back. And if there are certain positions that we need to back, we have been doing it very judiciously and very comfortably.
- Sandeep Shah:** And just, Pradip, the wage increase last time you said that for this quarter would be 100 bps versus that you quantified close to 150 bps. So, this is what you have said that to curtail the attrition we have given higher-than-anticipated wage hikes?
- Pradip Menon:** No. It is not about giving higher than what it is. But I think there is a certain estimate that we had in terms of what we would manage. And therefore, what I had given was an indicative number of a percent. So, I think what we have ended up obviously with 1.5%. It is also a factor of the revenue. At the end of the day, these are all percentages linked with an impact on revenue. So, there is a certain view on revenue and there is a certain view on cost. So, both has sort of moved in different directions.
- Sandeep Shah:** Just last question on the average selling price or the billing rate. If you look at last 3 quarters, the volume growth has been consistently higher than the dollar revenue growth, which indicates a pressure on a consecutive basis for last 3 quarters in terms of the pricing. And despite that, we are also increasing the number of usage of the BOTs, but that does not actually help us in terms of reducing this reported pricing decline as a whole. So, is it anything related to a renewal related kind of a pressure or it is largely a mix change and the differences in terms of offshoring, which you do or a billing days calculation each quarter?
- Pradip Menon:** It's largely a function, for example, this quarter is largely a function of the offshoring as well as I have mentioned this time there is ramping up of projects which are happening, which also has an impact. And of course, there is another play of currency which also comes in, in these calculations. The currency movement will also have an impact when the rates come through. So, a combination of all this, but this time it is certainly the offshoring and the ramping up of new projects which is a fundamental factor.
- Sandeep Shah:** And just last thing, out of top 15 or 20 clients, we do not have any client-specific issues, right? One can largely say that most of those client-specific issues within the top 15, 20 clients are largely behind?
- Debashis Chatterjee:** I would say so.
- Moderator:** Thank you. The next question is from the line of Ruchi Burde from Bank of Baroda. Please go ahead.
- Ruchi Burde:** My question is regarding the deal win, especially the Digital deal win. If I look at the first half number, the Digital deal win starts at about 277 million and contributed about roughly 44% of the deal wins. And same number last year in the first half was about \$301 million worth Digital deal win

and which accounted for about 52% of the total deal wins. So, I'm just curious to know why we are seeing a decline in the mix of Digital deal win. And is it something that concerns you?

Debashis Chatterjee: Yes. So, I think in terms of Digital deal wins, this is linked to the number of projects we have. There is an impact of quarterly deal closures which happen. Some of the projects, as I said, the nature of the deals are such that there are certain projects, which ended at certain point of time. There are timing differences. So, what we are saying is that there could be differences in terms of picture in terms of TCV. But if you look at our growth in Q2, we are continuing to grow almost 2x of the Mindtree growth, which gives us confidence that we are in a good sweet spot in terms of Digital.

Ruchi Burde: So, if I get it right, you're saying this is just a timing aberration, nothing peculiar to call out?

Debashis Chatterjee: Correct.

Moderator: Thank you. The next question is from the line of Harit Jatish Shah from Reliance Capital Company. Please go ahead.

Harit Jatish Shah: I just wanted a sense on the outlook for your manufacturing and retail vertical, so one of your major peers has given out a bit more cautious outlook in that vertical given the outlook, given what is happening especially in the United States. So, some sort of perspective on that? For this quarter we saw a little bit of subdued growth in that vertical. So, if you could give some sort of a perspective on the outlook out here. What is the kind of trend we are seeing?

Debashis Chatterjee: As far as the portfolio that we have and as we indicated that we have seen a fairly good broad-based growth across the specific industry groups in which we operate as well as geographies, and the portfolio of clients that we have right now, I think it's quite stable as of now.

Harit Jatish Shah: So, you're not looking at necessarily any incremental slowdown as far as retail is concerned. Is that right?

Debashis Chatterjee: So, I think one important point, I think, you have to connect in Mindtree's case is the composition of the RCM portfolio. For us, a significant contribution comes from CPG rather than retail, and therefore, it is not necessarily a big concern. And the second thing is that even that portfolio is growing. So, we don't see it that way, possibly because we are not having as much exposure. And we do not have historically significant contributions from that group.

Harit Jatish Shah: Okay. Sure. That was quite helpful. One more question as far as your mix is concerned, you did say that you are looking to use offshore mix as one of the possibilities for expanding margin going forward. So, now this quarter, it was about 78.4% was the offshore mix. So, do you believe that there is a substantial room for increase out there, given that a lot of your incremental deals on the Digital

side will probably have initial onsite kind of requirement to ramp up out there? And what would you say as far as that is concerned?

Debashis Chatterjee: Yes. So, I think, yes, there is some obviously room. It is not that there is a lot of room there. We have seen some improvements this quarter. And therefore the continuous effort is to make sure that we get those miniscule improvements quarter-on-quarter. We will continue to do that. And as also somewhere in the earlier part of the Q&A, we talked about having a broader set of deals. Now that could be another way of ensuring that the Digital could be one part of a deal, but not necessarily the entire component, and that could help us in getting more of the offshoring component included or increased. So, that's the way we look at it.

Harit Jatish Shah: Okay. Fair enough. And one last question from my side. So, as far as your BFSI vertical is concerned, you have in the past mentioned that there has been mainly a bit of lag in the space given that you do not address too much of digital spending here. So, how have you been on that journey? Have you increased your digital share as far as our banking clients are concerned? And can that be a driver going forward? Even though, I mean, some of our larger peers have clearly mentioned a fairly negative outlook out there, but how are we placed on that front right now?

Debashis Chatterjee: Yes. It also depends on the kind of portfolio you have. We have won quite a few new deals in Digital as well as in testing across our BFSI portfolio. And if you look at our BFSI portfolio, where we are seeing growth is mostly in the insurance segment and also some of the Tier 2 banks. So, it is purely a factor of the portfolio, and I think that's where the growth is coming from.

Moderator: Thank you. The next question is from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Congrats on steady state of numbers. Two questions. First is about if one look at the segmental margin, we are seeing weakness in Hi-tech and Travel vertical. BFSI has shown some improvement this quarter, but Hi-tech and Travel verticals seeing some moderation in margin. I think, last 2 quarters, we are seeing that trend. So, if you can help us understand what is playing out there and how you expect it to play out over next couple of quarters, which may help you to see overall blended margin expansion? That is question one. Second question is on the Digital side. We have provided break up into 4 line item. One of that is cloud services, which is broadly consulting services, which we provide to clients. So, if you can help us. It's showing some weakness and it is now for a couple of quarters and I presume it is to some extent linked with the migration-related services which you offer. So, if you can provide some perspective what is playing out there?

Debashis Chatterjee: Yes. So, I think on the Hi-tech, specifically if you call out, I think we talked earlier on in the call around a deal where there are ramp-ups happening. So, some of that costs are sitting in the Hi-tech vertical and that's why you are seeing relatively a softer margin. So, we see margins coming back or improving into the coming quarter. As far as Travel & Hospitality, it is also linked with certain new

customers, new wins that we have had, and those are also in the process of ramping up. So, both on those both counts, we see margins improving quarter-on-quarter, and you will see things coming back to the levels over a period of time back to last year's level both for Travel as well as Hi-tech. And your second part of the question was Digital, yes. So, on the breakups of the Digital, the fact of the matter is that there are individual components. These are all relating to projects which happen quarter-on-quarter. They do get to a closure at certain point of time. There are timing differences etc. But the way to look at it is that we continue to grow Digital year-on-year. Overall, it has overall momentum of 2x of Mindtree's overall growth, and that has been the trajectory we been having. And we continue to be very positive. There could be quarter-on-quarter minor movement between each sub element and subcomponent, but that's not really something to look at. And we have continued to be in terms of our presence and our leadership in this space, it is obviously a frontrunner for us when we increase with clients. The idea is, of course, to take the rest of the portfolio along when we get to the next stage.

Dipesh Mehta: Just on the Hi-tech, you indicated we will return back to the last year average in a couple of quarters?

Debashis Chatterjee: No, I didn't say that specifically. I said that there is a significant component of the ramping up of deals happening in this cost. And therefore, we'll see that improving. An exact percentage, I did not give you. But we will see that gap narrowing in the coming 2 quarters.

Moderator: Thank you. The next question is from the line of Abhinav Ganeshan from SBI Pension Funds. Please go ahead.

Abhinav Ganeshan: I have just a couple of questions. The first one is that we are seeing that now out of your TCV, the renewals are at 60% to 65%. Historically that was around 80%. So, will this run rate be the new run rate going forward? And how about ramping up our multiyear multimillion dollar deals? How are we shaping up on that? Because if I look at that as a percentage of your total, it is around 20%. So, if you could give us some color on that.

Pradip Menon: So, I think what you're seeing on renewals, if you see even Q1 versus Q2 actually renewals are in the opposite direction. So, I don't think that's a fair one. In fact, the new deals are actually much higher in Q2 versus Q1. So, I don't see an issue there. And yes, so there are, of course also as I said earlier on in one of the conversations that we do have certain customers who have a certain cycle of renewal of deals. Some of the companies have a Jan-December cycle. Some have July-June cycles. So, there could be some differences of that nature. So, that will also feed through here.

Abhinav Ganeshan: If I can squeeze in one more. Just wanted to understand how is the renewal going? Are we facing any margin pressure during renewals or how is it going? If you could just give some color on that.

Pradip Menon: So, I think we are not really at this point of time seeing a significant amount of impact of any nature. In fact we have got certain renewals at better margins in some cases. So, it's a combination of both. The existing customers we have not seen any particular concerns at this stage in terms of it.

Moderator: Thank you very much. That was the last question. I would now like to hand the conference back to the management team for closing comments.

Debashis Chatterjee: Yes. Thank you for having us on this call. And this is DC here. Just to wrap up, I would just like to make a few points. In the last 60 days, I had predominantly 2 focus areas. One was to provide the stability and the continuity. And from that perspective, I had to have stability and continuity with the clients as well as the management. And as I said, I met almost all the strategic clients of Mindtree, and I felt very good after meeting them. And I feel that there is a lot of potential in terms of building the relationship stronger. And I also want to thank my leadership team for their commitment in terms of helping me out in terms of making all these things happen. And there is also a lot of positive sentiment from the rest of the organization. And in my town halls and one-on-one meetings, I can see that everybody is willing to put the past behind and look at the future. And the second thing I want to highlight is that I definitely want to focus on growth. And in that respect, it is important for us to understand that growth will probably come from focusing and mining the strategic clients and also creating large deals, working with the partners in terms of creating a lot of sell-with opportunities. So, stability and continuity is of course, the primary focus. I feel very good about it. And I think we are on the growth path. We had a very good quarter in Q2, and we should be able to continue this momentum as we go forward. Thank you so much.

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