Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Fourth Quarter ended March 31, 2017

April 20, 2017

Moderator: Ladies and gentlemen, good day and welcome to the Mindtree Limited Results Conference Call for Q4 FY17 and for the year ending 31st March 2017. 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 Mr. Sushanth Pai. Thank you and over to you sir.

Sushanth Pai: Thanks, Aman. Welcome to the conference call to discuss the financial results for Mindtree Limited for the fourth quarter and year ended 31st March, 2017. I am Sushanth, Head of Investor Relations.

On this call, we have with us the Senior Management Team:

Krishnakumar Natarajan – Executive Chairman

Rostow Ravanan – CEO and Managing Director.

Parthasarathy NS – Vice Chairman & COO.

Jagannathan Chakravarthi – CFO.

Ramesh Gopalakrishnan – Global Head of Delivery and Operations.

The agenda for the session is as follows:

Rostow and Jagan will begin with a brief overview of the company's performance after which we will open the floor for the Q&A session. Since we have introduced an audio webcast, some of you may have joined the webcast. The webcast is a listen-only mode, but you can post 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 the analysts and investors, in case there is anyone from the media I request you to please disconnect as we just concluded the media briefing before this call.

Before I hand over, let me begin with a Safe Harbor statement. During the course of 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. We do not undertake to update those statements periodically.

I now pass it on to Rostow.

Rostow Ravanan: Thank you, Sushanth. Good evening to all our friends from the financial community. Happy to share that our FY17 revenues have grown by 11.2% in constant currency, which exceeds the industry estimates of 8% to 10% for FY17. In reported terms, we have grown 9.4%, which means this financial year also we have been amongst the leaders in terms of growth in the Indian IT industry. The financial year also marks completion of 10 years from our IPO in March 2007; I wanted to thank all our investors, analysts and well-wishers for their ongoing support in this journey. We are very satisfied and happy with the foundation we have created, which has enabled us to succeed even in the times of adversity.

Some key achievements over the last decade:

- Our 10-year CAGR in dollar terms has been about 20%, which means we have outperformed the industry and we are now the seventh largest IT Company in India; value of 10 shares invested in our IPO has gone up from ₹4,250 to ₹ 18,120 as on 31st March 2017 which is about a 326% value creation for our shareholders.
- As a born digital company, our focus has been to help our clients with their technology transformation initiatives both for their run-the-business as well as change-the-business programs. One of our largest investments to date is Mindtree Kalinga, our global learning and delivery center, which we believe will be a game changer to build the engineers of tomorrow. More than 2,000 people have graduated from this campus since it was set up in early 2015.

Now, some highlights of the quarter:

For the quarter, consolidated revenues were $195.6 million, which is a growth of 1.8% sequentially and 0.3% compared to the previous year same quarter. On a constant currency basis, revenue grew by 2% over the previous quarter. Q4 has been the best quarter in FY17 in terms of constant currency growth. We had highlighted our efforts to change the strategy and improve our execution in our subsidiaries, I am happy to report that those efforts are yielding results. Bluefin grew at 11.1% sequentially over the previous quarter and Magnet 360 grew 4.8% over the previous quarter.

Amongst the verticals, BFSI was the best performer for this quarter, which grew by 4.1%; Technology, Media & Services grew 3.9%; Retail, CPG & Manufacturing was the only vertical which had a slight decline. For the full year, Technology, Media & Services was the best performing vertical with 16.5% growth, followed by RCM, BFSI and Travel & Hospitality.

Amongst the geographies, US grew 3.4% and Europe grew 2.1% with a constant currency growth of 2.6%. Digital business grew 2.4% quarter-over-quarter and on a full year basis, Digital grew 18.3%, which is a reflection of our strong capabilities in Digital. IMTS was also a high-performer for this year, which grew by 23.5% in FY17 compared to FY16. We made significant progress on the attrition front. Trailing 12-month attrition has reduced to 15.1% compared to

16.1% in the previous quarter. Quarterly annualized attrition is at 13.2%, which is the best ever since 2014.

We had some strong multiyear multimillion dollar wins, including building an unified digital experience platform for a leading healthcare insurance company, providing managed services for multiple applications to a global leader in the computer software and technology industry, transforming core business processes using Duck Creek and a SaaS product for the leading automotive insurance company, application maintenance support on SAP S/4 HANA suite on cloud for an industrial equipment distributor and many more.

In terms of outlook for FY18,. We have had a good deal closures of orders worth $209 million in Q4, coming on the back of very strong deal wins in Q3 as well. Out of the deal wins in Q4, $135 million were renewals and $74 million was new orders, and $50 million contracts for the quarter were Digital business contacts. Orders for less than one year was $182 million and $27 million is for greater than one year.

The market environment in front of us is quite dynamic due to the technology disruptions, global economic conditions and geopolitical volatility. Due to these factors, some of our large customers continue to see business pressures and some of their technology initiatives are being curtailed. Our focus is on deepening relationships with some of the key customers in this segment and make stronger inroads using emerging technologies. Some of our customer relationships beyond the top 10 have yielded good growth and consequently the top 10 that we see today is not the same top 10 that we entered the year with, which means that composition of our top 10 has changed.

Keeping all of these factors in mind, we expect that FY18, Mindtree will grow at low-double digits, which should again put us amongst the leaders in terms of growth in FY18. Our leadership team is fully aligned to create growth and execute on this strategy. Scott Staples, one of our Co-Founders has left Mindtree to pursue other opportunities on a very amicable basis and continues to be involved in certain areas with Mindtree, including being a member of our Customer Advisory Council. All the industry group heads, all the vertical heads will consequently report to me, which will help me remove one layer between me and the customer. Scott will also continue to work with Mindtree as a member of the Board of Magnet 360, which is our sales force practice and help grow the sales force practice to even greater heights.

Now, let me pass on to Jagan for some other financial highlights.

Jagannathan C N: Thank you, Rostow. I will first start with update for the quarter.

This quarter, fee revenue grew by 2.1%, with volume increase of 2.2% and price realization dropped by 0.1%. EBITDA for the quarter improved by 80 basis points to 14.2% compared to 13.4% last quarter. This was mainly possible because of some cost saving, which helped us to save about 1.9%. This was little bit offset by drop in utilization and increase in people cost, which had an impact of around 1.1%.

The PAT for the quarter was 7.4% compared to 8% last quarter and EPS for the quarter was Rs. 5.77 per share compared to Rs. 6.13 per share last quarter. The drop in PAT and EPS was mainly due to "Forex" loss in this quarter. We ended the year with a good improvement of DSO, which is 65 days, with strong free cash flow and cash flow-to-EBITDA.

The Board of Directors in its meeting held on March 27, 2017 has recommended for an interim dividend of 20%, ₹ 2 per share, and in the meeting held on April 20, 2017 has recommended for a final dividend of 30%, which is ₹3 per share.

Some points on margin outlook for the next year:

Improving margins is one of the key priorities for financial year '18. Based on the revenue growth indicated by Rostow, our continuous focus on operational efficiency initiatives, we expect margin for financial year '18 to be better than financial year '17. Tight integration of subsidiaries will add to this effort of improving the margin. This does not factor any currency fluctuations

Some of the key points to be considered are:

We will have only one salary cycle increment, which will be effective from July 1, 2017. The levels of increment will be decided during this quarter. We plan to hire about 1,200 campus graduates for financial year '18. We expect to incur $1.7 million towards visa cost in financial year '18. This will be slightly lower than the visa cost we incurred in FY17. ETR for financial year '18 would be 25% to 26%, a slight increase due to some facilities entering into 50% tax brackets.

With this, I conclude my financial update for the quarter.

Rostow Ravanan: Aman, we can now take questions.

Moderator: Sure. Thank you very much. Ladies and gentlemen, we'll now begin with the question-and-answer session. We have the first question from the line of Mukul Garg from Haitong Securities. Please go ahead.

Mukul Garg: Thanks for the opportunity. Rostow, my first question was on FY18 outlook, you have guided for a low double-digit growth. So, is that because of any improvement in demand environment in your key clients or are you seeing any improvement in the top client growth which suffered in last year?

Rostow Ravanan: Mukul, Rostow. I think it is a combination of a few things. At one level, it's the very strong deal wins we had in Q3. If you remember, we reported more than $300 million worth of deals we signed in Q3, of which about 60% were new wins or 40% was renewals. Similarly, this quarter as well, we had very good deal wins of more than 200 million. So, overall it's on the back of strong deal closures over the last two quarters as well as strong pipeline that we are seeing with us as of today. So, overall it's the reflection of wins and pipeline that gives us the confidence for next year. If you leave the tactical quantitative kind of a view, I think the other reason why we are extremely confident is that our customers as well as the market is telling us that the strategy that we had outlined in terms of helping our customers with both their run-their-business as well as their Digital transformational initiatives is resonating well, the domain knowledge as well as the technology expertise that we had from a strategy point of view, that is also connecting well with the market, that's also qualitatively the reason why we believe we are confident of a double-digit growth next year.

Mukul Garg: Sure. And just following on to that, Rostow, so any improvement in the environment that had top clients, especially beyond the second to ten bucket, which suffered last year. Have you seen issues, are these issues over now or do you expect them to continue for another one or two quarters?

Rostow Ravanan: Slightly nuanced to answer that question, like I explained in my comments, I think the customers who are closing as top 10 customers on March 31, 2017 are not the same who were in the top 10 on April 1, 2016. So, there has been a churn in our top 10 customers. There were a few customers with whom we have very warm relationships, but their business is going through trouble. So, their technology spend has been curtailed and consequently some have moved out of the top 10 versus some of our other customers who historically may have been in the 11th or the 12th or between the 11 to 30 kind of bucket of our customers, with whom our initiatives to mine those relationships deeper has done well. So, they have entered the top 10. So, I think the top 10 as a percentage of revenues will be a little uneven between quarters because there are few customers who are doing badly and therefore they are going out and some new customers are entering into that bucket. So, that number will be a little uneven for the next one or two quarters.

Mukul Garg: Fair enough. And one final question to Jagan. If you can help us understand margin levers to focus on FY18, especially given the recent appreciation in INR, you are still expecting margins to improve from FY17?

Jagannathan C N: Mukul, just to update you, I am not factoring the currency fluctuation in the margin update that I just mentioned. We have continued to focus on operational efficiency like utilization, rate increase and onsite-offshore mix of revenue. There are enough of levers available for us. Apart from that, the integration of the acquired entities also will help us to improve the margin. So with the levers available, we are very confident of improving the margin. If you see last two quarters, we have continuously increased the margins quarter after quarter.

Mukul Garg: Sure. Thanks..

Moderator: Thank you. We have the next question from the line of Aniket Pande from Elara Capital. Please go ahead.

Aniket Pande: Thank you for the opportunity. I had a couple of questions. The first question was, there was a slight decline of around 5% in retail segment. So, is this decline due to the structural changes going on in retail sector or some other reason? And second question was, any guidance on your utilization level from where it will head ahead?

Rostow Ravanan: Hi, this is Rostow, Aniket. I think the decline in retail was a little bit only for the quarter. I think on a full year basis, retail has grown. We are seeing some mixed feedback from some of our existing clients. On the other hand, we are also seeing some new customers where deals are getting closed, projects are getting started, etc. So, it's a little bit of a mixed feedback. At this point of time, I'm treating it as a one quarter trend and therefore I want to watch how the next one or two quarters turn out before we can make a little bit of a more confident prediction for the industry as a whole for Mindtree. Coming to utilization, I think as we grow maybe over the next two or three years trying to get another 2%-3% points improvement in utilization, currently we hover between 70% and 72% between different quarters, I think that will go to maybe 73%-74%, but it'll be a journey, it's going to take a few years before we get there because that change will happen as we become larger. And I also want to point out that, within the industry different companies have different definitions of utilization. Our definition of utilization is probably amongst the most stringent. So, the theoretical max utilization as per our definition is about 85%. So, it is not very far away, it is not very inefficient in terms of where we are right now.

Aniket Pande: Thank you, sir.

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

Manik Taneja: Hi, thank you for the opportunity. I basically had a couple of questions. Historically, your margin outlook essentially has been based on a constant currency basis. So, does that hold true this year as well? That's question number one. The second question was that in the recent quarters, one has seen significant pressure on offshore realization for us. If you could give us some sense on how are you looking at that metrics going forward?

Jagannathan C N: Hi, Manik, thanks for your questions. The margin outlook what we have given is on constant currency basis. We have not considered the currency fluctuations. Coming to this offshore realization, we have taken lot of initiatives to improve the offshore component of the revenue and also utilization in the offshore level. And wherever the contract rates have to be renewed or increased, wherever possible we can do, we are taking initiatives for that also. So, it is a conscious effort and our efforts have started showing some results in some places and it will take a little bit more time for us to have a significant impact on that.

Moderator: Thank you. We have the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir, for us to get into the double-digit growth, we would require around 4% CQGR. So, are we expecting a strong start for FY18? So, the first two quarters, are we looking at 4% to 5% quarter-on-quarter growth?

Rostow Ravanan: I'm not commenting on the calculation per se, Madhu. But yes, we are expecting a strong start to the year.

Madhu Babu: So, that large insurance deal which we closed in 3Q, so that will ramp up, I mean, that revenues will kick in 1Q. Is my assumption right?

Rostow Ravanan: More than one deal, like we said, Q3 was a very strong in our all-time best sort of deal closure of about more than $300 million. Q4 also had very strong deal closures. So, many of these have started to yield revenues.

Madhu Babu: Sir, and second thing on the margins, could you give us the outlook for the subsidiaries, I mean, Bluefin as well as Magnet, how are the margins there? And other thing is that headcount. Last year, we have seen almost very muted net additions. So, next year when we do hiring, how will your margins expand, I mean, overall, the picture?

Rostow Ravanan: So, the two subsidiaries, Bluefin and Magnet, are continuing to do better. You should realize that it's primarily a very high-end consulting business, which means it has a high fixed cost in terms of people cost and as revenue starts coming back into a growth mode, the business goes into a reasonably quick profitability mode as well. But driving margin improvements in Bluefin and Magnet is one of the margin levers for next year. And as far as people addition goes, it's a combination. While obviously we will do people additions or we expect to do people additions based on revenue projections and based on sort of business outlook at the moment, profitability levers factor that in, but we also have a few operational levers as well as overall growth as a profitably driver, all those should lead to margin improvements for next year.

Madhu Babu: Okay, sir. Thanks.

Moderator: Thank you. We have the next question from the line of Dipesh Mehta from SBI Capital Securities, please go ahead.

Dipesh Mehta: Yes, I just wanted to get more color about FY18 outlook. Typically we see Q3 and Q4 is relatively softer quarter because of seasonality in terms of what we have observed in the past. Do you expect any different behavior in FY18, transferring the changing business mix and other things?

Rostow Ravanan: Difficult to tell, plus like we have explained before, Dipesh, we don't give guidance. So, the only thing which we can say is, the year is expected to start strong based on the deal wins we've had in Q4 and Q3, as well as the pipeline that we have as of today.

Dipesh Mehta: Okay. And in terms of the margin side, can you help us understand, I think in constant currency you suggested margin to be better than FY17 and I think you highlighted also some of the factors. But my question is about margin profile of Bluefin and I think you said revenue is one of the major factors. So, how you see growth coming back to Bluefin and specifically related to geographical kind of issue, which we have seen in Bluefin because of UK, Brexit and other things?

Rostow Ravanan: So, both businesses are seeing good growth momentum in the recent past. You saw that we had very good results for Q4. We continue to see strong traction and pipeline for both the businesses. Also we have, I would say, sort of changed some of the strategic priorities for the business. Like you outlined, there are some challenges within UK. So, for example, the Bluefin business is spending more efforts to win business in the US. So, there are some deliberate steps that we have taken to be able to bring both the businesses back into a success mode.

Dipesh Mehta: So, do you think now the challenges which we are facingon the acquisitions are behind us?

Rostow Ravanan: Difficult to tell. Like I said, again, coming back to the point, you know, we don't give guidance. We also realize that the world is a very uncertain place right now. So, we expect to start-off on a good year. We expect to start-off the year on a good note and continue to sort of push and do the best we can for our customers. That's the best we can share at this stage.

Dipesh Mehta: Sure. Last thing is, can you provide your comments about, vertical wise, how you expect demand environment?

Rostow Ravanan: Overall, I think all the verticals are probably seeing a good pipeline and good momentum in front of them. Different verticals are seeing different trends. For example, travel, CPG etc. are more focused on emerging technologies like Digital. Sectors like BFSI, more of the demand is coming because of their cost reduction kind of initiatives. So, the nature of demand is different, but I think we are quite positive. We are seeing positive momentum across all the four verticals.

Dipesh Mehta: Okay. So, in short, you expect all the vertical to grow more or less evenly next year?

Rostow Ravanan: All the verticals will grow. Evenly, we will see how the year shapes up.

Dipesh Mehta: Okay, great. Thank you.

Moderator: Thank you. We have the next question from the line of Sandeep Shah from CIMB Securities, please go ahead.

Sandeep Shah: Yes, hi, thanks for the opportunity and congrats on good execution. Just wanted to get a color that there are few clients within your top 20 or top 15 list where there were some client-specific issues. So, just wanted to know most of those issues are behind. I do agree some of the clients may churn, but whether those issues with those specific accounts are behind?

Rostow Ravanan: Not yet, some of the ones that were going through some business challenges, I think may take a little bit more time before we can see any confidence in some of those accounts and we are continuing to monitor it and continuing to de-risk it as well.

Sandeep Shah: Okay. And just in terms of margin outlook, which we have said, so do you believe that the tailwinds which we are looking at through cost optimization, constant currency would be enough for looking at the rupee appreciation, assuming the current spot rate continues for the next year because it looks like that the headwind could be as big as 120 bps, 130 bps on the margin through currency for the coming year

Rostow Ravanan: We are not making any comments on currency and the impact of currency at this stage because we have seen currency can be extremely volatile. For example, in February, I don't think anybody was predicting the rupee to reach this level on March 31st. Similarly, for example, god knows what the rupee will do on May 31st, sitting where we are in the middle of April. So, I think we will leave the currency-related factor aside. On an operational basis, we are extremely conscious that we need to do better on our profitability. A few things are already being activated and few more things are also being planned and will also be implemented to help us improve our profitability.

Sandeep Shah: Okay. And do you believe that these large deals which comes to ramp up stage, there would be a large deal transition-related cost, plus there could be some investment required for the onsite location looking at the ongoing debates on the visa regulation? Do you believe those would be new headwinds for FY 2018?

Jagannathan C N: This is Jagannathan here. Just to update you, we have to wait and watch on what is happening, developments happening on immigration. We will be able to make an assessment about the cost implications only after we know much more details on that. On the large wins, we are not expecting any additional cost to come. We have factored in what is required for the transition, Sandeep.

Moderator: Thank you. We've the next question from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.

Ashish Chopra: Yes, thanks for the opportunity. Rostow, just to get the comment on your top clients, you mentioned that in the last year there would have been some churn in the top 10 accounts, but are you also saying that such a churn may continue into FY18 as well, if we go by the positioning of respective clients?

Rostow Ravanan: No, what I have meant is the constitution of the top clients has changed. Those that were having challenges, some of them have dropped out of the top five, some may even have dropped out of the top 10, some new companies have entered that bucket etc. The ones that are in the top 10 are, I would say, reasonably likely to go through and maybe have some positive momentum for us. But the top 10 as a whole will obviously, the percentage of top 10 as a whole will be uneven because it's a different top 10 compared to the old top 10. So, maybe one quarter, there will be growth, one quarter, there may be high growth, one quarter, there may be low growth etc. So, it will be an uneven picture when you look at the top 10 bucket as a whole. Individually within the accounts, some of the accounts which had trouble probably stabilizing and improving, some of those accounts which were in trouble probably still continue to see some challenges in front of them. So, it's a mixed picture that we can only explain on an account-by-account basis.

Ashish Chopra: Got it. And just lastly from my side, so there have been a few exits in the top leadership in the last year or so at Mindtree. So, heading into FY18, would you see the top leadership team completely in place or would you be looking at filling up a few gaps that would still be work-in-progress? Thanks.

Rostow Ravanan: We definitely made some progress. For example, some positions have been filled with external talent like Balaji who joins us to Head the Technology, Media and Services vertical. Some have been filled with internal talent. For example, Anil Gandharve has taken over the Head of Retail, CPG and Manufacturing etc. We are extremely proud of the large leadership bench that we have. In some cases, any churn that happens will be met through internal talent and some cases talent will also get rotated to take on additional responsibilities. And in some cases, we may also get in external talent as well if there are a few open positions and search is on to help us find world-class talent for those positions, so that's the picture of the talent front.

Ashish Chopra: Got it. Thanks and all the best for FY18.

Moderator: Thank you. We've the next question from the line of Shekhar Singh from Excelsior Capital, please go ahead.

Shekhar Singh: Sir, just wanted to know, like for the year as a whole that is for FY17, since there has been a sharp drop in margins, can you say what were the key factors which caused the drop for the year as a whole, and which of these factors are going to improve in FY18, because of which we are expecting some margin improvement, and to what extent can we recoup the loss of margin which we saw in FY17?

Rostow Ravanan: Shekhar, I think it's a combination of factors that we have been explaining every quarter over the course of the year. For example, one of the largest was the impact of the two acquisitions that we had done, Bluefin and Magnet, given that they are very consulting-led high fixed cost kind of businesses and they have revenue pressures for various reasons our margins dropped significantly in their businesses. Margin profile of the acquired entities being lower and some of them going into a negative EBITDA because of the market pressure. So, that was the one reason for the drop in profitability. Second, I would say, major reason for the drop in profitability is a kind of new wins that we've had, in previous year it was on onsite-oriented, so that was the other reason for our drop in profitability. And quarter-to-quarter, there were a few things. For example, in some quarter we had an increment, in some quarter we had visa costs etc. So, on an overall basis, those were the three or four reasons for drop in profitability in FY17. Many of those are work-in-progress and we have things that are beginning to turn around. Like I said, for example, Bluefin and Magnet are seeing very strong growth. So, that should lead to improvement in profitability. So, some operational cost reduction kind of initiatives, some of those should also lead to improvement in margins. So, combination of things are also being done to be able to get margins back to a stable state. What we can assure you is that we are conscious that our margins at the moment are below our own satisfactory levels and we are doing the best that we can to help address the margin question.

Shekhar Singh: Okay, sir. Thanks a lot. That's all, sir.

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

Mohit Jain: Hi, sir. First is on "Forex" loss. So, what went wrong specifically in this quarter? And is there any expectation for FY18 as well, given the quantum of loss we had in 4Q?

Rostow Ravanan: I think around FY18, it will be difficult to comment because it depends on how the rupee/dollar moves during the course of the year. For FY17, like we explained in the beginning of the call, we had debtors where revenues which were booked during the course of maybe the end of Q3 and beginning of Q4, which were at rates higher than the rate at which the rupee ended on March 31. So, restatement of those debtors was what led to the "Forex" loss.

Mohit Jain: Okay. But receivables were not high compared to what you used to do as of first half FY17?

Rostow Ravanan: It's a fairly simple equation, Mohit. If on January 31 we had raised an invoice and that prevailing rate on January 31 was 67.1, for example, then the debtors would have been booked at 67.1. On March 31 if that invoice has not yet been collected, that debtors would have been restated at 64.1. I'm just using an example. So, I have Rs. 3 FX loss. So, the quantum of receivables is not the issue, the rate at which the receivable was booked and the rate at which the receivables are restated on the closing rate of the period, that is the one that's leading to the loss. It's a fairly simple straightforward accounting process.

Mohit Jain: Okay. Second was on your drop in onsite rate for this particular quarter?

Rostow Ravanan: Little bit of it is anecdotal, it's a very small change. Little bit of it is because some of our newer wins in Magnet and Bluefin came in at lower rates. But I would wait to see one or two more quarters before we can see, is it a long-term issue or maybe just one-off for the quarter.

Mohit Jain: Okay. Last is on your margin guidance. So, you said constant currencies, so this is as of like what should we assume, March 31st or FY17 averages what you are assuming for FY18?

Jagannathan C N: It is FY17 average, Mohit..

Mohit Jain: Understood. Thank you. That's all from my side.

Moderator: Thank you. We have the next question from the line of Shashi Bhushan from IDFC Securities. Please go ahead.

Shashi Bhushan: Yes, thanks for taking my question and congrats on good performance. I have two questions related to deal wins. Any reason why Digital deal wins have fallen in FY17 on a Y-o-Y basis? Is it some company-specific stuff or environment-related or more temporarily in nature, we should not read too much into it?

Rostow Ravanan: I would say, it's a little bit environment-related given obviously all the global uncertainties of our customers are changing their priorities. Part of it is we're beginning to see the trend where, while you are right that the deal wins are uneven between quarters, the size of individual Digital deals are continuing to go up. So, maybe they are going through additional levels of approval, additional levels of scrutiny by different stakeholders, additional sales cycle time etc. So, it's something we are monitoring. Difficult to currently call any trend out of this. However, the year as a whole, Digital has grown significantly ahead of Mindtree. Digital grew 18.3% whereas Mindtree grew 9.4%. So it continues to be one of our fastest growing segments and an absolute sweet spot for Mindtree.

Krishnakumar Natarajan: Shashi, this is KK here. See, one of our key processes in Digital is also to see how we increase the size of the deal and you have seen in quarter three we did talk about a larger Digital win which was in the $18-$20 million range and in this quarter also we had a large win. So, consciously also we are trying to say that while there could be easy pickings of smaller deals which are very onsite-centric, it's also our effort to try and see we move to larger Digital deals which are more multi-year in nature. So, that transition certainly has an impact in terms of maybe the number of deals, but we think on the long-term this is probably far more a better solution for us. The other thing which we are consciously focusing on is, even if there are discretionary deals with smaller deal size, can we make part of that get delivered out of offshore, which is again work-in-progress. So, I think there are fundamental ways in which we are trying to see how do we make Digital more predictable, how do we make it in a mix of both onsite/offshore model, and while we are doing this transition, yes, there will be some bit of bottlenecks which you can see.

Shashi Bhushan: Sure, sir, that was very helpful. And second one, again on the deal side, our overall deal win for FY17 was in mid-single digit, which was lower than the last two years and also the order executable in FY18 is I think weaker than what it was in the last year? So, what is driving the confidence of double-digit growth in FY18?

Rostow Ravanan: I think, like we have mentioned, partly it's a question of strong deal wins, partly it's because it took a little bit of time for us to grow new accounts to offset some of the decline in some of our large previously top 10 customers, etc. So, some of those, like I said, challenges have started to turn around and stronger growth momentum on both Bluefin and Magnet. So, combination of all of these are one reason as well as continuingly sort of more bullish on the pipeline that we are building up. Ever since I would say maybe September-October timeframe onwards, pipeline is continuously picking up and we are winning very large opportunities as well. So, all of those are the reasons why we are confident of our double-digit growth in FY18.

Shashi Bhushan: Just last one from my side, and then I will leave the floor. Any risk we see in decision-making due to UK election, or did we factor that in our guidance?

Rostow Ravanan: No, I mean that happened yesterday or day before yesterday or whatever. So, I'd like to be as real-time as you are pointing out to be, but unfortunately I think we haven't yet heard anything back from our customers because of that. But on a more serious note, on a broader basis, I think many of our clients and correspondingly therefore our own business is beginning to deal with multi-dimensional volatility and we are also consciously, like I said, looking at more than one geography, more than one sector to handle some of these things. So, that's also a reason why we are confident about FY18 growth. And finally, I think in spite of, I would say, multi-level challenges, FY17, we still declared a 9.4% growth on reported currency terms, which is almost, I would say, double-digit growth for all practical purposes or 11.2% on a constant currency basis. So, our feeling is, even in very, very turbulent times, Mindtree continues to be growing ahead of the industry and we think that trend will continue even into the future.

Shashi Bhushan: Thanks a lot and all the best for FY18, sir.

Moderator: Thank you. I now hand the conference over to Mr. Sushanth Pai for taking the webcast questions. Please go ahead, sir.

Sushanth Pai: Yes, thanks, Aman. Rostow and Jagan, there has been a question from the webcast. In the last quarter, we articulated some points on our capital allocation. So, there is a question on, any update on the possibility of share buyback that you mentioned last quarter?

Rostow Ravanan: I'll take that, Sushanth, thanks. This is Rostow. I think we didn't specifically say yes or no to any particular instrument. All we have mentioned was, given both the regulatory environment as well as the market conditions, we are evaluating multiple options for capital allocation. Some of those are now continuing to sort of being evaluated, haven't reached any conclusion as yet. Part of the reason why we are waiting is that currently there is an application pending before the regulatory authorities for merging two subsidiaries into Mindtree and some of these newer methods cannot be implemented while those kind of merger approvals are pending. So, we have got to wait to hear back from the regulatory authorities on some of those processes. And at the right stage, then the Board will evaluate newer options and go back and make an announcement.

At this point of time, all I can say is, all options are being considered, no decisions have been taken as of today.

Sushanth Pai: Thanks, Rostow. Aman, we can take the questions back to the call.

Moderator: Sure, sir, thank you. We have the next question from the line of Apurva Prasad from HDFC Securities, please go ahead.

Apurva Prasad: Yes, thanks for the opportunity. Just wanted to check on top 10 accounts that we talked about, do you now expect the top 10 to grow closer to company average? That's one. And also, based on the last two quarter deal wins, how different are the margin profiles in that?

Rostow Ravanan: Like I mentioned earlier, Apurva, I think that top 10 as a percentage, I think will be uneven, maybe one quarter it will grow higher than the company average, one quarter it may be a little lower than the company average because there is some churn in the accounts and there's some unevenness in the way we are seeing growth in some of our large accounts. So, it will be a combination of some of our large accounts growing. We have some of our new accounts now start becoming large for us as well. So all of those lead to a little bit of unevenness in the growth pattern of our top 10 accounts. That's the picture in front of us at this stage. These new wins are coming at reasonably close to the similar margin profiles of what we have. No major, I would say, trend of improved pricing or lower pricing on an average. Obviously, I can't comment on a deal-by-deal basis, but as a portfolio, I'm not seeing anything dramatically different from our existing average.

Apurva Prasad: Okay, that's helpful. Thanks.

Moderator: Thank you. We'll take the last question from the line of Saurabh V from Morgan Stanley, please go ahead.

Saurabh V: Hi, Rostow. Two questions. Firstly, the clients where you continue to see some challenge, are they within your top 10 clients and which segments would they be mostly pertaining to?

Rostow Ravanan: Okay, I think I've tried my best to cover this in previous questions as well. There are two dimensions here. There were some accounts that we started the year as our top 10, some of those are no longer top 10 for us, meaning those customers had business pressures and therefore their technology spends were getting impacted and therefore their spend with us was also getting impacted, and therefore they are no longer in our top 10. Somebody else who was not originally in the top 10 has grown and become in the top 10 right now. But the accounts specifically which had challenges, few are out of those challenges, few continue to be, but they are a cross section of both geographies, between both US and Europe, and also across different verticals. Maybe one of them is in financial services, one of them could be in retail, and so on so forth. So, it's across geographies, across verticals in terms of some of our large customers going through budget pressures.

Saurabh V: Sure. Sir, you talked about pipeline growing, building up from September-October timeframe. Is there any quantitative thing around how much has the pipeline grown in the last six months?

Rostow Ravanan: It continues to grow, I would say we are very satisfied with the pipeline. We just don't disclose pipeline details. So, I can't unfortunately share a specific number with you, but it continues to grow really well.

Saurabh V: Sure. Sir, last thing any color on profitability of the subsidiaries, Bluefin and Magnet 360, as of this quarter?

Jagannathan C N: Yes, Saurabh, this is Jagan here. The margin for Bluefin has improved this quarter which is about 3.4%. So, they've declared a positive EBITDA for this quarter. Magnet, there was no drop in profitability for this quarter, but that was more of an investment for the growth and they are expected to strongly, both of them, expected to strongly bounce back in the coming years.

Saurabh V: Okay, thank you.

Moderator: Thank you. We have the next question from the line of Dipesh Mehta from SBI Capital Securities. Please go ahead.

Dipesh Mehta: Sir, just two questions from my side. Can you help us understand, I think last few quarters we have seen good traction in top client. Do you think the momentum will continue or you believe now top client is likely to stabilize? And second question is about, is it possible to say organic revenue growth in Digital in FY17?

Rostow Ravanan: I don't have the organic revenue growth for Digital in FY17 at the moment, maybe we can find that out and share that with you subsequently. Coming to our largest customer, very, very positive on the outlook there. It's been one of our stellar performance for FY17. And as we see as of today, we continue to see good growth momentum in the account. We don't see anything as of today that gives us any cause for concern.

Dipesh Mehta: Okay. Thank you.

Moderator: Thank you. We have the next question from the line of Sandeep Shah from CIMB Securities. Please go ahead.

Sandeep Shah: Yes, sir. Sir, just wanted to understand, post the two large deal wins which we had in Q3, how are we building up the momentum there, because the large deal wins for Mindtree are sporadic, so do you believe that situation to change going forward, and if yes, why?

Rostow Ravanan: Sandeep, by very definition, I don't think the world is in a great position right now that Mindtree can expect to get large deals every quarter. They effectively have long sales cycles, competition obviously also is quite strong in some of those deals etc. So, they will be episodic. There will be a quarter where we'll get something and there will be a quarter where we won't get anything of that size. However, the point is, deal wins continue to be very strong. which is, $ 200 plus million of deal wins in this quarter, it continues to be very strong.

Sandeep Shah: Okay. But anything because now at a scale of $800 million, the importance of deal wins on a consistent basis for a larger size goes up. So, anything structurally or strategically we are changing on that side?

Rostow Ravanan: Our own perception is that we need to continue to have momentum which means good pipeline, good deal closures etc. I don't think we are betting behind large deals every week or every month or every quarter because I don't think that is the way we are seeing the world in front of us.

Sandeep Shah: Okay. And just last question, if we can get a growth number in constant currency excluding Bluefin, Magnet and RSI for this year?

Jagannathan C N: Sandeep, this is Jagan here. We have the growth, Mindtree on a standalone basis for the year is about 7.5% year-on-year growth.

Sandeep Shah: 7.5%?

Jagannathan C N: On constant currency, it is 7.5% year-on-year growth but this includes RSI. This will not include Bluefin and Magnet.

Sandeep Shah: Okay, and this visa cost will come in the 1Q, right, as we used to have it?

Jagannathan C N: Yes, you are right.

Sandeep Shah: Okay. Thanks and all the best.

Moderator: Thank you. We have the next question from the line of Madhu Babu from Prabhudas Lilladher. Please go ahead.

Madhu Babu: Sir, in our guidance, have you assumed any pipeline conversion which can be a variable?

Rostow Ravanan: As we have given the guidance, it obviously gives multiple inputs in mind. So, the pipeline that we have definitely is one of the factors that went into the guidance we gave for the revenue forecast we gave for the year of double-digit growth. We're highly confident of that number, but either deal wins or existing customers having order cancellations will obviously change that number.

Madhu Babu: Okay. And second sir, a steep addition in sales headcount this quarter, can we read anything into that?

Rostow Ravanan: No, Madhu, there is specific addition. It is a little increase that it's happened in this quarter, but we are continuing to focus on front end engagement with the customers and this investment will continue.

Madhu Babu: Okay, sir, thanks.

Moderator: Thank you. We have the next question from the line of Nitin Padmanabhan from Investec, please go ahead.

Nitin Padmanabhan: Hi, thanks for taking my questions. When are the wage increases effective, is it Q1 or is it Q2?

Rostow Ravanan: Nitin, sorry we couldn't hear you clearly. Could you repeat your question please?

Nitin Padmanabhan: When are the wage increases effective? Is it Q1 or is it Q2?

Management: 1st of July.

Nitin Padmanabhan: 1st of July, okay, sure. Thanks a ton and all the best.

Moderator: Thank you. We have a follow-up question from the line of Sandeep Shah from CIMB Securities. Please go ahead.

Sandeep Shah: Sorry for coming again. Just on the line item, legal and professional charges has gone down materially. So, do we expect that this could be a new normal going forward or you expect that it could be updation and may increase going forward?

Jagannathan C N: No, legal and professional charges, we are not expecting it will go up again. This will be new normal for that.

Sandeep Shah: Okay, thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference over to Mr. Sushanth Pai for closing comments. Thank you, and over to you, sir.

Sushanth Pai: Thank you, Aman. Thank you all for joining this call. We look forward to being in touch in the coming days. Good night.

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