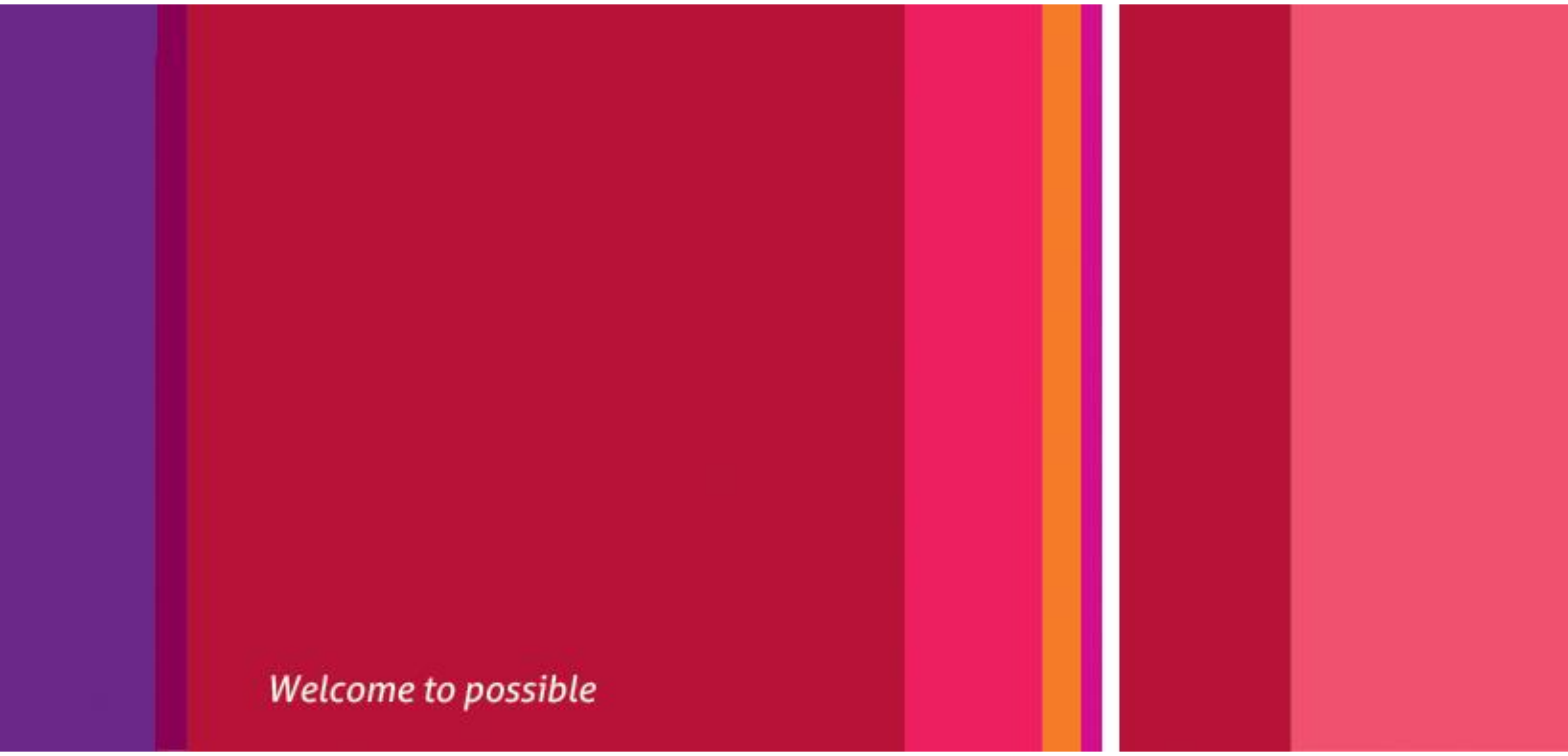
Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Third Quarter ended December 31, 2016

January 19, 2017



Moderator: Good Day Ladies and Gentlemen and welcome to the Q3 FY17 Results Conference Call of Mindtree Limited. 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sushanth Pai. Thank you and over to you sir.

Sushanth Pai: Thanks, Karuna. Welcome to this conference call to discuss the Financial Results for Mindtree for the third quarter ended December 31, 2016.

I am Sushanth from the Investor Relations Team in Bangalore. Before we start the proceedings, I would like to wish you all a very Happy and Prosperous 2017. On this call, we have with us the Senior Management Team:

Krishnakumar Natarajan – Executive Chairman

Rostow Ravanan – CEO & Managing Director

Parthasarathy NS – Executive Vice Chairman and COO

Jagannathan Chakravarthi – CFO

Ramesh Gopalakrishnan – Global Head of Delivery and Operations

Paul Gottsegen - Chief Marketing Officer

The agenda for the session is as follows: Rostow and Jagan will begin with the 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 in 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, request you to please disconnect as we just concluded the media briefing before this call.

Before I hand over, let me begin with the 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. I would also like to add my best wishes to all our friends in the financial community for a happy, successful and healthy 2017.

Coming to the financial highlights for this quarter, Q3 was in line with our expectations and we were able to stabilize our revenue, which has declined in the previous two quarters. In this quarter with a revenue of $192 million, we reported a constant currency growth of 0.4%, but in reported dollar terms, revenue declined by 0.4%. I am also happy to state that this quarter saw two very significant and happy milestones for us. First was that we have our first client who has moved into the $100 million category. This clearly reinforces our strategic positioning, strong delivery and great relationships with this very important client, and the leading transformations we have been able to do for some of the technology initiatives of this client.

The second highlight for this quarter was that we saw the strongest deal signing ever in Mindtree's history. We have signed orders worth $314 million in quarter three, of which renewals were $170 million and new orders were $144 million. Looking at this on a different length, orders which will be executed in 12 months or lesser is $234 million and the balance of $80 million would accrue towards longer than one year.

The quarter also saw digital contracts at very strong momentum with $103 million of contracts being signed in this quarter. Average deal size in digital today has moved to about $400,000 with new clients coming in at an average deal size of about $900,000. This is also a testimony to our expertise-led transformation capabilities. We continue to be seen as a preferred partner by our clients and prospects for both their run the business and change the business technology initiatives. In many clients, we have won these deals against much larger incumbents as well as competition and some of these deals were advisory-led. This also really shows our enhanced visibility within the analyst and advisory community.

Another very critical and important multi-year, multi-million dollar new wins in the quarter were as follows – a large diversified financial services company in the United States, Mindtree was chosen as a partner to provide application maintenance services in a managed services model which will support their distribution, digital, mobility and data applications. A leading global IT services company chose Mindtree as a strategic partner to provide system integration, digital and infrastructure services.

One of the world's leading consumer credit reporting agency chose Mindtree as its preferred partner to provide application development and infrastructure support services as the starting point and we expect the relationship to grow into other areas over the next few years. One of the world's leaders in lawful monitoring and intelligence solutions chose Mindtree as a strategic partner for their product development, analytics and digital initiatives.

One of the world's largest publishing events company, Mindtree will provide application support and maintenance services for their ERP platform. What was especially interesting about this deal is it is also a case where Mindtree's capabilities and relationships with the customer was supplemented by very strong capabilities coming from Bluefin and Magnet 360. So the benefits of the network effect are accruing to us within a year or so of some of these acquisitions.

A leading beauty products company chose Mindtree to provide digital services and build a large and complex platform to support their transformational corporate marketing initiatives. A leading international tobacco group, again was a case study where using the strength of Bluefin Solutions, we were chosen as their partner to provide system integration services around SAPs, business planning, consolidation and data warehouse using a HANA landscape. So these are some of the really proud wins of this quarter.

Some other highlights:

Amongst our verticals, our Travel and Hospitality business grew by 4.5% whereas the remaining verticals showed a decline. On a constant currency basis, however, retail, CPG and manufacturing grew by 1% and the technology vertical grew by 0.3%. Amongst the service lines, our remote infrastructure management practice grew by 1.5%. Amongst geographies, our US business grew by 1.1%, and our European business declined in reported currency terms, but on constant currency terms, the European business was stable compared to the previous quarter.

We have 348 customers in this quarter and in the $10 million category, we added a new customer, which takes the total in that category to 17. Another satisfactory outcome from the previous quarter was that trailing 12-month attrition has fallen to 16.1%. Quarterly annualized attrition has also fallen significantly to 14.7%. We had 16,099 Mindtree Minds, which reflects a gross addition of 470 people in this quarter. On a net basis, we had a negative headcount addition of 120. We had 140 campus graduates join us in quarter three. We expect a little more than 300 to join in quarter four, which would take the total campus addition for the full year to 950.

Coming to our outlook for the next quarter - though the deal signings have been really phenomenal, the revenue from these deals will become meaningful from Q1 of 2018, due to the transition in some of those contracts. Only a small portion will accrue to us in quarter four. And therefore, we expect the quarter four revenue to follow a similar growth pattern like what we saw in quarter three.

Markets continue to remain volatile and customers are still evaluating the priorities for 2017 for their technology initiatives, and we expect more clarity on their budgets to be visible to us only maybe in a couple of months from now. Some of our large customers continue to see challenges in their own business as well as with the macroeconomic environment. And therefore, the growth for us will probably come outside our large top 10 customers from some of the new wins we have had over the last few quarters.

An update on our acquired companies Bluefin and Magnet - the restructuring at Bluefin has progressed well. Sales teams within Bluefin have been realigned to Mindtree Vertical and are focused on growth areas like suite for HANA, analytics, performance management, and customer engagement. Like I mentioned earlier in this announcement, we have had two wins which were influenced by Bluefin. However, uncertainty around Brexit and unpredictable currency are still causing short-term challenges for visibility on growth. To balance this risk, we are planning to expand these services offered by Bluefin to the US and Mainland Europe as new markets to stabilize and bring the business back to growth momentum.

On our Magnet 360 business, which is our premier salesforce partner delivering transformational salesforce services to global clients. The integration is progressing as per plan. The quarter saw a small revenue decline because of the seasonality for quarter three and certain projects getting pushed to quarter four. We expect that business to bounce back to strong growth in quarter four.

With this, I hand over to Jagan to cover some additional highlights.

Jagannathan C N: Thank you, Rostow. Good evening all. Before I begin my financial update for the quarter, I would like to point out that we have moved to Ind-AS from April 1, 2016. The differences between the earlier accounting standards and the new one have been highlighted to you last quarter.

Coming to the financial highlights for the quarter - this quarter our revenue declined by 0.4% on reported basis and grew by 0.4% on constant currency basis. Volumes declined by 3% and price realization has increased by 2%. Our EBITDA for the quarter was 13.4%, compared to 12.5% which is about 90 basis points improvement. This was mainly made possible because of people capacity optimization, reduction in subcontractor costs and other Opex costs. Mindtree margin excluding the acquisition was 15.3% as compared to 14.3%. This quarter we had a Forex gain of $475K compared to $431K last quarter. The effective tax rate is 25.3% compared to 25.9% last quarter. PAT for the quarter is 8% compared to 7.3% last quarter. EPS for the quarter was Rs. 6.13 per share compared to Rs. 5.64 last quarter, an increase of 8.7% quarter-on-quarter.

Our DSO for the quarter was 71 days compared to 66 days last quarter. Our utilization including trainees is about 71.3% compared to 71.4% last quarter. Capex spend for the quarter was around $3.3 million. YTD Capex spend is $10.1 million. EBITDA to operating cash flow conversion has substantially improved to 96.5% and EBITDA to free cash flow is at 81%. The return on capital employed for the quarter was 22.2% compared to 20.9% in last quarter. The Board of Directors at its meeting held on January 19, 2017 recommended for an interim dividend of 20% for the quarter ended December 31, 2016.

Some points on margin outlook - Given the revenue growth trajectory, in Q4 we expect the EBITDA margin to be stable. Currency fluctuations are not factored. We continue to focus on operational efficiency and cost control measures including better integration of our subsidiaries.

I would like to update our thought process on capital allocation. Over the past few years, we have articulated our dividend policy as part of our approach towards enhancing the stakeholder value. Given the current regulatory environment and investor feedback, apart from just dividends, we are also evaluating other options to enhance our focus on stakeholder value. We will keep you updated once we conclude on our findings.

With this, I conclude my update for the quarter.

Moderator: Sure, thank you very much sir. Ladies and Gentlemen, we will now begin the question and answer session. First question is from the line of Manik Taneja from Emkay Global. Please go ahead.

Manik Taneja: Hi, thank you for the opportunity. Had a couple of questions. So firstly, while you clearly alluded that some of the challenges within your larger customers are not completely done away with; however just wanted to understand, given the fact that we have seen some initial signs of stability emerging within revenues from the top customers, so should that mean that some of the sharper declines that we have seen in the recent quarters are largely behind? That is question number one. The second question was with regards to the deal wins that we have seen in the current quarter. If you could help us understand that is there a possibility that we will see some near-term headwinds because of transitions involved on some of these larger deals?

Rostow Ravanan: I will take the second question first. We do not anticipate any major headwinds because of the transitions like you mentioned. Next quarter which is where many of the transitions will start taking place, we are expecting to see stable margins. So we are not expecting any margin pressure because of these deals there. Many of them like I had mentioned have come because of our strong capabilities we have been able to demonstrate against very large competition in very tightly sort of competitive situations. So we do not anticipate those to be margin dilutive in the near term, so we are not overly sort of worried about that. As far as your previous question, as things stand today, we do have the impression that things have reached certain amount of stability with many of our large clients and, therefore, expect one more quarter where we will probably see a little bit more of a stable situation and from Q1 onwards to get into a more accelerated growth mode. But like we mentioned, the environment is so dynamic that it is difficult to sort of make a completely confident prediction as well. But as things stand today, we expect that one more quarter of stability and thereafter next financial year to be stronger growth.

Manik Taneja: Sure. And if I can ask you one more, I just wanted to get some sense in terms of because that is the most focused question for the sector as a whole, if you could help us understand how are we placed with regards to our delivery related to US operations, what proportion of our mix of employees would be on visas over there. And if you could give us some sense as to where our current compensations lie over there?

Rostow Ravanan: I don't have data on the headcount at the moment, so maybe that we can come back to separately. But on the first question, I think we are seeing the situation slightly differently. We have always been focused on doing the best that we can to understand our customer, their needs and configuring ourselves to be able to deliver that in the most effective way to the customer. That process started many years back and is an ongoing process. So therefore it is difficult and I don't think it make sense for us to react to any near-term sort of uncertainty on any of the regulatory environment at the moment. And secondly, for example, many years ago we started this initiative to create a near-shore presence. Many years ago we started a program to engage with leading campuses there. So it is part of our ongoing strategy to do what is necessary to win and deliver strong customer satisfaction. So that is our continuous focus today and in the future as well.

Manik Taneja: Sure and all the best for the future.

Moderator: Thank you. We move to the next question from the line of Vishal Desai from Axis Capital. Please go ahead.

Vishal Desai: Hi, thanks for the opportunity. Just quickly wanted to check in terms of the SG&A movement at Rs 2,680 million in this quarter versus Rs 2,807 in the previous quarter. Could you all explain me what has driven this reduction? Is it purely to do with the operating efficiencies and the cost reduction plans that you all were actually expecting to kick in with some more quarters in or is this early signs of it bearing fruits?

Jagannathan C N: This is actually an operational improvement that has resulted in the reduction on the SG&A cost. This process is continuing and we will see some more efficiencies unfolding which will be visible in the coming quarters.

Vishal Desai: Alright. So as revenue obviously kicks in, you would have a bump up coming in from this as well, going into the FY18?

Jagannathan C N: I didn't get your question, can you repeat the question?

Vishal Desai: So, as we are seeing the Q4 is likely to be something similar to what Q3 has been. What I am trying to understand is that given that Q1 we should expect some ramp up from the deal wins in this quarter, these cost optimization measures plus some amount of leverage from growth will yield margin growth as well into the future. Is that a correct way of understanding things?

Jagannathan C N: Yes, you are right.

Vishal Desai: Alright. Thank you so much. All the best.

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

Madhu Babu: So my question is on the Microsoft account. Now it has reached the 100 million run rate. In terms of the business, would the growth slowdown from this account for FY18?

Rostow Ravanan: No, we wouldn't like to name any customers because of the confidentiality obligations we have with them under their contract there. Many of our large customers have a very positive view on Mindtree and they see the kind of work we are doing and being absolutely critical for them. So I think as long as we continue to stay focused, build great relationships and deliver great value, I think many of our large customers will continue to grow with us. We have proven to them that we can be the most effective partner for them both for their run the business as well as change the business initiative. And that positioning continues to be strong. We don't think any customers would change their opinion of Mindtree or change the amount of work they do with Mindtree purely on the basis of risk management led decisions. I think the tougher bar for us is to make sure that we continuously prove that we can add value.

Madhu Babu: Sir, on the margin levers, I think this quarter subcontracting has come down. So would we see scope for further pruning on the subcontracting? And second on the headcount, last three quarters it has been tepid and we need to do more hiring from here on probably to absorb the growth. So how we see the margin trend for FY18?

Rostow Ravanan: Difficult to make any predictions for FY18 at this stage, partly also because we don't give any forward-looking guidance. But to explain the last two or three quarter performance, a lot of effort went into look at our operational efficiency parameters; the way we deliver; how can we increase productivity; looking at, for example, principles like LEAN; introducing, for example, kind of more automation within our projects. So multiple tracks were being considered and being rolled out over, I would say in the last few quarters. Many of them are bearing fruit, which is why our utilization is going up. And therefore we are obviously able to operate same services with a lower headcount. So currently, obviously headcount addition will be linked to business growth. So because of some of these efficiency improvement initiatives, we have managed to operate without adding headcount or all the attrition that we have had. But how long will that go, when will that change and so on and so forth, is difficult to predict at this stage.

Madhu Babu: Okay, sir. Thanks.

Moderator: Thank you. Next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: Good evening sir. Thanks for taking my question and congratulations on a strong set of numbers. Just a couple of questions. One is kind of a bookkeeping question. In the balance sheet, I see the investments rising significantly from the March levels from around 225 crores to around 500 crores. Is it just pure financial investments or something, is there anything other items sitting on that?

Rostow Ravanan: No, it is purely the extra cash flow that we have generated beyond our operational needs, which are parked in financial instruments like mutual funds, bank deposits, bonds etc. So it's purely that. We have not made any other kind of investments like buying IP or making equity investments in companies.

Vibhor Singhal: Okay, sir. Surely financial investments in that sense?

Rostow Ravanan: Exactly.

Vibhor Singhal: Great, sir. So secondly, sir, it is more to do with the basically overall environment that we are looking in the IT sector at this point of time. So we have had a very strong deal win in this quarter. So just wanted your perspective on the kind of deal flow that we are seeing. Now with the kind of feedback that we are getting is that there is a significant price reduction which is happening in the renewal deals, and the clients are asking for the same kind of basically the work in a much lower value. And on the other hand, there is also a good mix of the digital deal flows that you have reported in this quarter. How do you see that mix transitioning over the period of time? And how do you see the challenges of price reduction in the renewal deals panning out over the next few quarters?

Rostow Ravanan: I think there are two, three different views that we have. Broadly, I think the market continues to be extremely volatile. Many clients obviously have their own business pressures, and then you add in the macroeconomic and the political uncertainties that are also affecting the world at the moment. So many, many reasons to sort of create turbulence in our environment at the moment. So that is one data point. The second is clearly for many of the run the business kind of IT program, customers have very strong cost pressures and clearly wants to squeeze, optimize that part of their portfolio as much as they can. And obviously, they are passing on the heat on that part of their portfolio to their vendors. I think that reality will continue for a little bit more into the future as well because they need to squeeze money out of the run the business portfolio to invest behind their innovation agenda whereas on the change the business portfolio, they need vendors and partners who can bring a differentiated capability. So overall, that is the sense that we have. And therefore, we do believe that parts of our portfolio both in terms of existing business as well as new opportunities that we are pursuing, we will need to always maintain that balance.

Vibhor Singhal: And you see that balance basically tilting more towards, let's say, change the business part more than probably run the business going forward?

Rostow Ravanan: Difficult to say because obviously we are going after both. So we are just approaching the two differently, meaning they are building new capabilities, case studies, collaboration etc. So where we are participating in run the business kind of project, much more stronger focus on how we can do more automation, how we can, for example, integrate different service lines and therefore provide a compelling value proposition to the customer. So there is an angle of attack to show how Mindtree can be the best partner for that piece. For the change-of-business programs, technology capability, domain understanding, ability to predict the future, being more agile, so a different angle of attack for that piece as well. So we are obviously going after both. Which quarter what gets decided is obviously the customer's prerogative, so in one quarter maybe there is more of this and the next quarter there could be more of the other, but we have a very strong and a differentiated positioning for each of these two tracks.

Vibhor Singhal: Sure enough, sir. Sir, lastly if I can just squeeze in one question. Sir, apart from the weakness that we have seen in Bluefin in the last couple of quarters, is there any other weakness or postponement of client spending that we might have seen in the past few months because of either BREXIT or maybe the uncertainty because of the unexpected result of the US elections?

Rostow Ravanan: I think the customer decisions were quite volatile even before this. For the last, I would say, two or three quarters we have seen customer's decision cycles being slow, sales cycles being long, projects being canceled, all of that uncertainty has been going on for the last few months. Some of these events like what you mentioned add to that complexity and add to that volatility there. But on a positive note, I would like to point out that on a constant currency basis, Bluefin also grew in Q3 by 2%. So the reported growth was impacted because of the currency movements, given the fact that 80% plus of their business is in GBP and that currency has obviously moved in an adverse way compared to the dollar. But the Bluefin business is impacted, no doubt, but I don't think it has isolated the Bluefin business. I think overall technology spend, customer decisions are impacted by the economic and the political events as well as sort of challenges in their own businesses.

Vibhor Singhal: Okay, sir. Thanks a lot for answering my questions and all the best.

Moderator: Thank you. We take the next question from the line of Vinita Kumari from Narnolia Securities. Please go ahead.

Vinita Kumari: Good evening and thanks for taking my question. My question is on H1B visa. Can you just tell me what percent of workforce of your company is working on H1B visa?

Rostow Ravanan: I don't have that number off hand, maybe we can find some way to get it to you later. But the broader point I wanted to make was, over the last few years our focus has always been on trying to get closer to our customers and configure ourselves to be able to deliver the highest possible value to their customer. So things like the regulatory environment will always keep coming and will always keep going. Sometimes you will have a tailwind, sometimes you will have a headwind. We have learned to insulate our business model from these kind of short-term vagaries by staying focused on long-term customer needs.

Vinita Kumari: Yes, okay. That was from my part. Thank you.

Sushanth Pai: We will take one question from the webcast that has been posted from Mohit Jain from Anand Rathi. So I think there are multiple questions here, but one of the things he has asked is, why there is a sharp volume dip in this quarter. Is it because of the client challenges that you spoke about?

Rostow Ravanan: Okay, the volume decline partly was because of the client challenges that we explained at the beginning of quarter two. Part of it is also seasonal because of the quarter three, client furloughs, more people especially offshore taking leave etc., a combination of those factors led to the volume decline in quarter three.

Sushanth Pai: And any guidance on where utilization will head from here. And should we expect any further headcount reduction to support margins?

Rostow Ravanan: The headcount reduction was not being driven by Mindtree to support margins. Like I explained to a previous question, our focus has been to improve productivity especially where we are working with our customers on their run the business initiative, combination of, for example, using tools like LEAN to do process re-engineering, automation to automate some of the routine activities etc. That has allowed us to increase productivity and therefore we did not backfill attrition that happened in the natural course during the year. We did not forcibly initiate any attrition to manage margins. I don't want to leave that impression with the analyst community. And utilization, we expect it to be sort of broadly in this range there because we continuously monitor the growth opportunities in front of us and wanted to maintain sufficient capacity to drive growth, while concurrently managing our operations in an efficient way. So I think it will broadly remain in this range for the next two or three quarters. There will be quarterly variations. For example, next quarter we will see a fairly large campus addition, so the quarter when they complete their training and come into the workforce, there will be a quarterly dip, but maybe a quarter or two thereafter when they start getting deployed on projects, it will pick up again. So I think quarter-to-quarter there could be some positives and some negatives, but on a medium to long-term basis, I think it will reasonably sort of stay within the current range.

Sushanth Pai: A follow up question is we have had strong deal wins in quarter three. Is it because of budget flush or is there anything else? What is the underlying assumption there?

Rostow Ravanan: I will answer to the extent that we have visibility. Now, obviously many of this is governed by customers and the authorities etc. Our top of the mind view is we don't necessarily at this point of time see a budget flush, because all of this happened towards the end of last quarter when most customers were coming to the end of their financial year etc. So our feeling is it is unlikely to be a budget flush, it is more likely to be that for some of our customers, for the opportunities that they were chasing, the decision came to a final conclusion because of their analysis of competition, our proposal, value proposition and so on and so forth. So I think it is just coming to a conclusion based on all the discussions they have had with all the partners that they were considering unlikely to be a budget flush. But we have to wait and see for a few more quarters to see how this pattern emerges.

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

Sandeep Shah: Thanks for the opportunity and Happy New Year to the management and congrats on good margin execution. Just on the large deals, wanted to know what were the number of deals which were multi-million multi-year and what is the average tenure of those deals?

Rostow Ravanan: Sandeep, I don't have the answer in the way you are asking, but like I mentioned when I started the session, overall we signed 314 million in this quarter, of which 170 were renewals and 144 were new orders. And I also have the other breakup of less than one year of 234 and greater than one year of 80. New customers, new digital projects are coming at an average deal size of $900,000. So that is the way we had analyzed the data as of today, maybe we can offline work out the way that you are asking and share it with you in a day or two.

Sandeep Shah: Okay. And in this advisory-led deals, any such more deals in the pipeline because it looks like that for Mindtree the large deal always been a work in progress, but this time there has been a good success. So is it you believe that this will be now consistent going forward?

Rostow Ravanan: So the pipeline is again looking strong, like we explained at the end of quarter two, we probably had the best possible pipeline at that time in the history of Mindtree. In spite of having several large wins, the pipeline has again reached a very high level and the pipeline continuously keeps getting added as well. So both the deals coming in through our own sales process as well as deals coming in through the analysts and advisory channel, both are very, very, what shall I say, strong at the moment. What gets closed in what period is a little bit outside our control. It depends on each customer, the competitive cycles and the processes for that particular deal etc. So it's difficult to actually predict what will be my closure in Q4 sitting today. But overall we are quite happy with the way the last few weeks have ended as well as the way this quarter has started. So we expect to have more such strong wins in future.

Sandeep Shah: Okay, Just last question, when you say fourth quarter similar growth trajectory like third quarter, so are you talking in constant currency, and one should take it like a flat growth in constant currency what you are mentioning for the fourth quarter?

Rostow Ravanan: That is right. Our intention was to say, we will be probably in the similar sort of trajectory on a constant currency basis because our entire sort of guidance process does not include the factor because of currency, both the revenue outlook as well as the margin outlook is always on a constant currency basis.

Sandeep Shah: Okay. Thanks, and all the best.

Rostow Ravanan: Thank you.

Moderator: Thank you. Next question is from the line of Anantha Narayan from Credit Suisse. Please go ahead.

Anantha Narayan: Thank you, and wish all of you all a very happy 2017. So this question was either to Rostow or for Jagan. See, if I look at the EBITDA margins, just last year we had EBITDA margins of close to about 18%. So do you see directionally margins getting back to those levels? And if yes, what is the timeframe we are looking at and what could take it up there?

Rostow Ravanan: Anantha, Rostow here. Thank you, Happy New Year to you and your family as well. Maybe I will start, and Jagan can add in also. So like we have explained over the last two or three quarters, we are conscious that our margins are below our comfort levels right now. And there are continuous efforts to bring our margins back. Obviously, since we don't give guidance, I don't want to specifically state a percentage or a period by which we are going to get that, but all I can share with you at this stage is that there are multiple margin levers in our control. There are some factors that are outside our control. Obviously, we are trying to do everything that we can on all the fronts that we can. And there is a conscious realization that we need to pull our margins up.

Jagannathan C N: Anantha, just to add a point to Rostow's message. The improvement in margin to the earlier level is a medium term target for us. We are continuously working on various improvement opportunities. This will help us to improve the margin. This is a continuous process, and with the levers available, we will continuously exercise the possible steps to reach the margin level.

Anantha Narayan: Thanks for that and just if I could maybe make one more attempt to ask this question a bit differently. So has anything changed structurally that could preclude margins getting back to those levels like, i.e., for example, acquisitions could obviously dilute margins somewhat, but from a business perspective, has anything really changed structurally?

Rostow Ravanan: There definitely have been changes at a business level. I hesitate to call it structural or whatever at this point of time because we have to see how it plays out a little bit. For example, the amount of pricing pressure from some of our customers traditionally for their run the business kind of technology initiatives. So definitely, there have been some business changes as well. And obviously there are reactions to some of those pressures from a Mindtree perspective, but some of those are obviously also going to take time before we go there, so that is one business change. The second business change is the increase in the onsite proportion of our revenues based on the nature of work that we are doing at the moment. So that is another change in the business that we have seen. The third is the amount of, I would say, the change the business digital or advanced technology kind of initiatives. So some underlying business changes have also happened, so it's not in that sense like a one single factor. Lastly, obviously there has been a big swing on currency as well. And for the purpose of this argument I will keep the currency issue aside because that's neither unique to us nor in our control, but there are business changes as well that have affected us. In spite of all of those, I think there is a continuous focus on bringing our margins back to historic levels, and that continues to be an ongoing aspiration.

Anantha Narayan: Thanks for that, Rostow and Jagan and good luck for 2017.

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

Dipesh Mehta: Thank you for the opportunity. I only have questions about can you provide some colors about the vertical and our service line? How you expect in geography? How you expect to pan out for you in calendar '17 or maybe quarter four, whichever way you can answer?

Rostow Ravanan: At this point of time, obviously maybe more easy to answer for quarter four because like I mentioned, for the full year 2017, we still need a little bit more feedback from some of our large clients and prospects on their priorities. So don't have a specific answer for 2017. For quarter four, we do think the financial services business is probably under the most stressed at the moment, and therefore likely to see some volatility in terms of the growth rates there. Per contra, we expect our travel vertical to probably be amongst of --a good performance for quarter four based on the deal wins, based on the momentum that they are seeing. The other two verticals, Retail, CPG & Manufacturing and Technology Media and Services are likely to be somewhere between these two extremes at this point of time between our four verticals. Coming to our service lines, we expect both the digital kind of advanced technology offerings as well as some of our traditional service line offerings like infrastructure, testing etc. broadly to sort of do well, because like I said the pipeline, some of the deal wins etc. are likely to sort of help us get good growth across the different service lines.

Dipesh Mehta: Thank you. And any specific comment on geography-wise or you expect geography to be broadly similarly playing out kind of thing?

Rostow Ravanan: We expect geographical performance to be broadly similar. Even if you look at this quarter, the US had a small growth. Europe was flat in constant currency, but a marginal decline in reported currency. So the US and Europe will continue to sort of be around the similar level for quarter four as well.

Dipesh Mehta: Sure. And last thing was Bluefin, you suggested Bluefin in constant currency is now recovering and due this quarter. How the profitability for Bluefin is panning out with stability returning?

Rostow Ravanan: Bluefin itself was negative margin for the quarter, again like we had in quarter two. However, the rate of decline has stabilized. So the loss in this quarter was lower than the loss in the previous quarter. And if some of these initiatives we have put in place pan out well and the business grows faster in Q4, we expect to nurse them back to profitability also as quickly as possible. But the thing that is a validation of our strategy and in essence, a source of satisfaction for us is the two wins that we announced. One was a Mindtree customer where we were able to deepen the relationship using Bluefin capabilities. The second was a Bluefin customer, where the combination of Mindtree's strength and Bluefin's strength led them to win a larger order than historically the kind of orders that they have won. So we continue to believe that the strength of the team and the capabilities in that business are very, very strong.

Dipesh Mehta: Sure. Thank you.

Moderator: Thank you. Next question is from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: Yes, hi. Sir, just a followup question from couple of participants who had asked earlier. Just wanted to understand for us to reach our aspirational margin targets of 16%, what are the levers that are there available with us other than the revenue growth component that could drive it up?

Rostow Ravanan: I will start and like maybe Jagan can add. I don't want to peg ourselves to a specific percentage of margin target. I just want to reiterate that we are conscious that we need to pull up our margins and working towards achieving that. And there is a combination of factors, some of which are operational, for example, correcting the pyramid and so on and so forth, some of them are medium-term moves on trying to correct the amount of onsite revenues, correct the amount of subcontractors etc. and also to balance the portfolio, get much more larger transformational kind of deals, which allow us to beat the pricing pressure we are seeing in some of the traditional service lines. So a combination of both business and operational parameters are being pursued to be able to help us improve our margins on a Mindtree organic basis. At a subsidiary level for Bluefin and Magnet, more of the priorities is helping them move more work offshore because they are very onsite oriented, very consulting-led kind of businesses. And now if you move them to get more larger programs, more programs that also have a higher offshore components, so it is not just growth in itself, but a more, I would say, desirable kind of growth needs to be prioritized for those businesses. That will help us get margin stability and margin growth for Magnet and Bluefin.

Sangam Iyer: So, sir, from a driver perspective, this Bluefin and Magnet at breakeven levels, how much of a tailwind could that be to the margins?

Rostow Ravanan: About 100 to 150 basis points.

Sangam Iyer Okay, So that's the larger lever here available for us to actually turn the tide more favorable for us?

Rostow Ravanan: That is a lever. Obviously we are working on multiple levers.

Sangam Iyer: Got it. And sir, any timeframe that you might want to give in terms of by when you would aspire to reach the target margins that we're looking at?

Rostow Ravanan: As soon as possible.

Jagannathan C N: Just to add a point, this is the medium-term effort from our side. We are not expecting in the near future, but as Rostow says, that we are taking all the efforts to reach as soon as possible.

Sangam Iyer: Okay, Got it. And sir from a growth perspective, based on your interaction with clients and the visibility in terms of the strong order wins that you are getting and also the funnel being pretty strong, when do you expect us going back to the double-digit growth trajectory? Is it quite some time away or how should one be looking at it, because that is one of the key levers which were driving our business earlier as well?

Rostow Ravanan: So we are continuously evaluating that, and obviously, like I said, we expect this immediate sort of Q4 to probably be amongst sort of the stable kind of growth. But we are evaluating on the outlook for 2017-2018 financial year. And therefore, whatever we are hearing from the market, plus also what are the structural strategy, operational kind of changes we need to make within Mindtree to be able to deliver faster growth even within a sort of commonly applicable set of market conditions. So to that extent, that is an ongoing process. I'm not able to make any specific comment right now. But on a broader basis, we believe there is still a fairly active pipeline, there is a fairly strong demand that we are seeing from many of our customers. So we don't think it is a demand-constrained environment. It's more from making sure that our strategy, our positioning, our operations, our implementation, all line up appropriately.

Sangam Iyer: Okay. And sir, just a clarification. When you say Q4 being stable, so it is similar to Q3 growth that you are indicating here, both at the growth and the margin levels?

Rostow Ravanan: Absolutely. So on a constant currency basis, both on the growth and the margin level, we expect Q4 to be similar ranges as Q3.

Sangam Iyer: Okay, great sir. So in spite of the transition, there is not much of a margin pressure that might happen in Q4 actually?

Rostow Ravanan: That is our current expectation.

Moderator: Thank you. We will take the next question from the line of Sagar Rastogi from Ambit Capital. Please go ahead.

Sagar Rastogi: This is Sagar. Thanks for taking my question. Rostow, you had alluded earlier that the pricing pressure that you are seeing now is a bit different from the past. And I just wanted to understand that better because my understanding is that, even in the past, clients would have liked lower pricing, but you were always able to differentiate and stay one step ahead of your competitors. But that lever appears to be breaking down now. So my question is where is this competition coming from? Is it your larger competitors who are in those large accounts sort of pressuring you down or is it a new breed of maybe smaller companies that have now matched up to your capabilities and forcing the pricing down? Thanks.

Rostow Ravanan: Thanks, Sagar. Great question. Maybe it's an opportunity to clarify. I didn't give any indication that the pricing pressure today is different from the pricing pressure in the past. And what I meant was the pricing pressure for parts of our business is intense, and it comes broadly out of two trends. One, some of our customers are facing pressures in their own business, maybe it is a regulatory environment, maybe it is the macroeconomic environment are some of the reasons that is affecting their own business right now. And to that extent, there is severe cost pressure, and therefore they are asking all their partners to help save cost. So business pressure, strategy challenges, execution challenges in our clients is one factor. The second factor is, many clients are becoming very sophisticated in their technology buying decisions especially in the run the business part of their portfolio and therefore expecting cost optimization through automation and through multiple other levers and therefore passing on that ambition, aspiration, pressure to their partners to be able to save money on their run the business portfolio. So both of those are leading to this price pressure. From what we can make out within our large customers where other vendors also operate, our impression is that everybody is in the same bucket. It is not as though any competitors doing better than us or largely even worse than us at the moment. So as we stand today, within our current customers, I do not think the pricing pressure is coming because competition is coming in and quoting a lower price etc. Broadly, we see more the customers' business pressures and their expectations that is putting the pressure on prices.

Sagar Rastogi: Thanks, Rostow. So that basically means it is more a customer portfolio issue, which can hopefully improve. And just quick follow up. So, can we think of CTB, change the business pricing to be better than run the business pricing for you? And if so, by how much? I mean, do you have any rough thumb rule for that?

Rostow Ravanan: I don't have a thumb rule. But yes, the pressure on pricing is far lesser in the change the business portfolio when we pitch for work in that portfolio with clients, but the discussion there is also on a different wavelength. It is to help the customer showcase what is the ROI, what is the business case behind those kind of programs etc. So they are not necessarily asking us to justify the price, they are putting pressure on us to justify the value.

Moderator: Thank you. The next question is from the line of Gaurav Ratheria from Morgan Stanley. Please go ahead.

Gaurav Ratheria: Hi, Rostow, thanks. Your pipeline conversion has been much better for the deal wins, your top clients have seen some amount of stability. Your 3Q was impacted by lower number of working days, your subsidiaries have seen some amount of stability. So at the margin, is it fair to say that the environment has improved? And if that is the case then what's driving a muted outlook for fourth quarter? Is it that you are seeing some ramp downs in some of the accounts?

Rostow Ravanan: Gaurav, like I mentioned in my comment, there is continuing to, I would say, some challenges within some of our clients. So while obviously there are lots of wins and lots of great memorable achievements in this quarter, but I don't think all the problems have ended. So I think that will take a little bit more time, so it is one of the reasons why we have a more stable kind of a picture for Q4. The second is some of the new things that we have won in this quarter also have a longer setup, ramp up period before when they start yielding revenue. So both those reasons ultimately lead to a more stabler outlook for Q4.

Gaurav Ratheria: Sure. Sir on the margin side, you talked about some of the efficiency programs actually will continue to come through in the coming quarters. So what is the offsetting thing which is keeping margins stable given that revenue outlook has improved, some of the efficiency program benefit will continue to flow through? So what is the offsetting factor which is kind of keeping the margins stable?

Rostow Ravanan: The margins being stable for Q4 is just near-term issues in terms of, like I said, some of the revenues being stable etc. plus some current commitments we have made. For example, we expect about 300 campus recruits to join us in Q4. So some of those things are the ones that are playing, that are the positives and negatives for Q4 margin.

Gaurav Ratheria: Sure. Last question, some color on the current size of revenues and profitability for Bluefin and Magnet 360, that will be really helpful.

Rostow Ravanan: So Magnet is growing very well. So the growth rates at Magnet are very strong. Current quarter got slightly impacted because of seasonality, Q3 customer priorities etc. But on an overall basis, sales force as a capability, Magnet's branding, all of those factors are allowing them to execute very successfully in the marketplace. Bluefin is a little bit more challenged because of the political environment in UK right now. And therefore, there is a strategy shift of taking that service to global clients in the US and Continental Europe etc. and de-risking some of the volatility we see in Continental Europe and in the UK. So that's the current trend, which therefore means Magnet will continue to do a reasonably high growth. Bluefin will take a little bit of time before we can start seeing the upside from a revenue growth perspective on that business. But both have very, very strong capabilities, many customer wins to validate that the story that Mindtree has put together both organically as well as inorganically continue to resonate extremely well with the customer.

Gaurav Ratheria: Sure. Thank you.

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

Ashish Chopra: Yes, hi. Thanks for the opportunity. Just a couple of questions. Rostow, firstly just wanted to understand that this pressure in some of your top accounts which is kind of keeping the growth back. Is it being largely manifested only through the pressures on pricing or do you see also a significant volume impact as a result of the same?

Rostow Ravanan: It is both. Pricing pressure is one aspect, but also volume contraction in terms of projects being canceled or delayed or deferred or - so there's obviously both impacting us in some of our large clients at the moment. But I want to leave a balanced perspective. While that is happening in a few clients, we are also being able to grow some of our other clients quite well. For example, one of our customers in the travel industry, which was in the top 10 has grown to be our top three customer today, in the top five customers today. And therefore there's also growth happening in a few of our clients.

Ashish Chopra: Okay, that's helpful. And just secondly, on digital, as far as the revenue rate is concerned, that has kind of flattened out a bit in the last four quarters or so. And I was just noticing that your deal wins YTD in digital are also up only 4% for the first nine months of this year. So I just wanted to know and hear your thoughts on what's really happening there and what do you expect going forward in the same?

Rostow Ravanan: So, maybe one last comment on the previous question and then I will answer this one. What we are also seeing which is making us a little bit satisfied is that we are not losing market share in any of our large clients. So this pricing pressure, this focus on the cost control etc. is to that extent not happening with respect only to the Mindtree portfolio. So to that extent, our belief is the Mindtree positioning value proposition and all our strategy, all of which continues to be strong. And overall from a relationship perspective, clients still see Mindtree as one of their preferred partner. So to that extent, there are some positives as well in the overall environment at the moment. As far as the deal wins especially in digital go, I think it is a continuously evolving thing. To some extent, yes, deal wins in digital have been slower in the last few months compared to the previous month. But it's probably explained by the fact that some of the newer wins are much larger. So some of these things have moved beyond the initial pilot, proof of concept kind of a stage where we are still validating that thought process, to now moving to more of the large-scale implementation where we are moving the customer all the way from transforming their system of engagement to their system of records. So because these are larger, then sometimes it ends up being slightly more longer sales cycles, more stakeholders involved etc. Finally, to some extent, it's also governed by seasonality, December quarter, so on and so forth, as well as the current economic environment in some markets as well. So more than one factor is playing into that area, but we still believe it is moving in the right direction. And the more important thing for us is to start moving some of our digital opportunities to those large multi-year, multi-million dollar kind of programs like the one that we announced when we started the session today with a large beauty products company.

Ashish Chopra: Got it, got it. Thanks, Rostow. All the best.

Moderator: Thank you. Ladies and Gentlemen, this was the last question for today. I would now like to hand over the floor to Mr. Sushanth Pai for his closing comments. Over to you, sir.

Sushanth Pai: Thanks, Karuna. Thank you all for joining this call. We look forward to staying in touch in the coming days.

Moderator: Thank you very much sir. Ladies and Gentlemen, on behalf of Mindtree Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.