Mindtree Limited
(NSE: MINDTREE, BSE: 532819)
Transcript of analyst call
Fourth Quarter ended March 31, 2018

April 18, 2018
Ladies and gentlemen, good day and welcome to the Mindtree Limited Q4 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. In case 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 this Conference Call to discuss the “Financial Results for Mindtree for the Fourth Quarter and Year-ended March 31, 2018.” I am Sushanth, Head of Investor Relations. On this call, we have with us senior management team,

Krishnakumar Natarajan – Executive Chairman;

Rostow Ravan – CEO and Managing Director;

Parthasarathy NS – Executive Vice Chairman and COO;

Jagannathan Chakravarthi – CFO

Ramesh Gopalakrishnan – Chief Delivery Officer.

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 in listen-only mode, but you can pose 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 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 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 will be different. We do not undertake to update those statements periodically.

I now pass it on to Rostow.

Rostow Ravan: Thank you, Sushanth, and good evening to all our friends in the investment community.
Very happy to share with you that we ended the year on a strong note with revenues of $226.2 million in Q4 which works out to Q-o-Q growth of 5.5% and 15.6% YoY, making it the best quarter of FY’18.

On a constant currency basis, the Q-o-Q growth was 4.5%. For the full year, we achieved $847 million in revenues which is a growth of 8.6% which again has exceeded the industry estimates for the fifth year in a row and continuously beat the industry growth rate in nine out of the last eleven-years since our IPO. Our continuing strategic investments in building expertise for domain, digital and run are being clearly recognized by our customers.

Some of the key highlights of FY’18 are as follows:

- Our recently concluded customer satisfaction ratings are at an all-time high and we set the benchmark in the industry on a few important parameters. This clearly demonstrates our successful delivery execution and customers are looking to us to help them drive their technology roadmap which shows the increasing trust and confidence that customers have in Mindtree.
- We achieved a trailing 12-month attrition rate of 12.5%, which is one of the lowest we have seen in the last few years, again reflecting our increased people engagements and high ability to attract and retain talent in Mindtree.
- We also had significant client wins in both run and grow side of the business. Many third-party advisories have positioned us in the leadership quadrant for both run and grow offerings.
- Automation is one of the important organizational priorities that plays a significant role in modernizing our service delivery and enhancing efficiency for our clients. I am proud to say that we are taking the lead in the industry to report our BOTs strength effective this quarter. We define BOTs as software that work autonomously along with human, enabling Mindtree minds to do more and accomplish larger goals. As of 31st March 2018, we have 335 BOTs operating in Mindtree.
- We continue to be very disciplined on our capital allocation and like you would have seen earlier this year we concluded our first buyback program which was well appreciated by the investor community. We also continue to maintain healthy dividend payout ratio. We continue this approach of enhancing stakeholder value through multiple mechanisms, keeping in mind the business needs, business performance, investments and other strategic priorities.
- We have fueled our leadership strength through internal and external hires taking on higher responsibilities.
Some other highlights for this quarter:

Amongst verticals, Travel and Hospitality led the growth with 9.7% Q-o-Q; Retail, CPG and Manufacturing grew 8.7%; Technology, Media and Services grew 8.2%; BFSI declined by 4% in this quarter which was a one-off situation in this quarter and we expect growth momentum to be back in the future.

For the full year – all verticals had good all-round performance; Technology, Media and Services led with the growth of 10.8%; Travel and Hospitality grew by 10.1%; BFSI grew by 7.1%; Retail, CPG and Manufacturing grew by 5.9%.

Among geographies, for the quarter, US grew by a healthy 7.5% and Europe grew by 6.2%. For the full year US grew by 10.7% and Europe by 8.1%.

Our Digital business continues its strong traction with 8.3% growth Q-o-Q and full year growth again is much stronger than Mindtree, almost double of Mindtree at 18.9%.

We have 338 active customers at the end of the quarter; we added 23 new clients in this quarter. I am very happy to report good improvement in all the clients buckets where $25 million customers grew by one, taking the count to four, $10 million clients grew by two, taking the count to 17; $5 million clients grew by one, taking the count to $38 and $1 million clients grew by four, taking the count to 118.

Trailing 12-months and quarterly annualized attrition are very healthy at 12.5% and 13.1% respectively. We ended the year with 17,723 Mindtree minds, reflecting a gross addition of 1,102 people in the quarter. During the quarter, we had 339 campus minds join us. For the full year, we have added 1,285 campus graduates.

This quarter saw some very strong multi-year, multi-million dollar wins and to share with you some examples –

- Mindtree was awarded a largest single contract to-date by an existing customer in the airline industry in the US. Under this contract, Mindtree has been given full ownership of the Q&A function for this customer and we are working with the client on radically redefining the QA function.
- Our partner and an existing customer in the Enterprise Software Product segment, Mindtree extended its presence into the infrastructure management area with the differentiated value proposition and was awarded a multi-year, multi-year million-dollar opportunity.
- We are providing cutting edge analytics using SAP, HANA to deliver customer insights for a large automotive company in the UK.
Another existing airline client in the US has chosen Mindtree to be strategic partner to support application development, maintenance and quality assurance services as part of their IT transformation initiative.

Coming to the Outlook for Next Year:

This quarter we signed deals worth $298 million, of which renewals were $256 million and new contracts were $42 million. Contracts to be executed within one year was $237 million and greater than one year was $61 million. Digital contract signed were $102 million. Overall TCV signed in FY’18 crossed $1 billion.

We are very optimistic about the demand environment across all our chosen verticals and continue to see improvement in our win ratio. Overall pipeline has increased by 32% compared to FY’17. Digital pipeline grew by a very healthy 66% compared to FY’17. The further success of our large deal focus reflects the need for Global 2000 businesses to marry scale with agility. Mindtree is in that sweet spot.

Taking into consideration all the factors I mentioned above, we expect the financial year ’19 to start on a very good note and we expect to deliver stronger revenue growth in FY’19 compared to FY’18.

With that I pass on to Jagan to share some other Financial Highlights:

Jagannathan C N: Thank you, Rostow. Good evening to all.

In Q4, our fee revenue grew by 5.7%; volumes increased by 7.8%; and pricing realization declined by 2.1% due to higher number of days as compared to previous quarter. Overall, our pricing is stable.

On consolidated basis, EBITDA margin are at 16.1% in Q4 compared to 15.1% in Q3. 70 basis points improvement was due to currency effect and 30 basis points was due to operational improvements. EBITDA margin for the full year FY’18 is at 13.6% as compared to 13.7% in FY’17. On a constant currency, EBITDA margin for the full year FY’18 would have been 15.4%.

For the quarter, we have a Forex gain of $2.9 million compared to Forex loss of $1.3 million in the previous quarter. The ETR for the quarter was 27.3% and the ETR for the full year was 23.2%. PAT margin for the quarter grew to 12.4% as compared to 10.3% in Q3, which is Q-o-Q improvement of 27.9%. EPS for the quarter is Rs.11.08 with Q-o-Q growth of 28.7%. EPS for the full year is Rs.34.23, good growth of 37.8% compared to FY’17. Our DSO at the end of this quarter was 67-days compared to 71-days last quarter. For the full year FY’18 cash conversion has been steady with EBITDA-to-operating cash flow conversion at 76.2% and EBITDA-to-free cash flow at 62.4%. Our return on capital employed for the full year is at 26.6%.
The Board of Directors at a meeting held on April 18, 2018, have declared an interim dividend of 20%; Rs.2 per share and recommended a final dividend of 30%; Rs.3 per equity share which is subject to shareholders' approval.

Some points on Margin Outlook:

As Rostow mentioned, we expect revenue growth momentum to be stronger in FY’19. With this, we are confident of improving the margin in FY’19 as compared to FY’18.

Some of the key points to be considered are:

- In FY’19, we have advanced the salary revision cycle to April 2018. All Mindtree minds will get a salary revision effective 1st April 2018. This will have an impact on the margin by 300 basis points.
- We plan to hire 1,900 campus graduates in FY’19.
- We have applied for far less number of visas in FY’19.
- ETR for FY’19 would be in the range of 27-28%, a slight increase due to some of the facilities entering the 50% tax bracket. We expect this range to continue for next few years barring any new legislation that may impact the tax rate.

With this, I conclude the update.

Moderator: Thank you. Ladies and gentlemen, we will now begin the Question-and-Answer Session. We will take the first question from the line of Sandeep Shah from CIMB. Please go ahead.

Sandeep Shah: Just wanted to understand the growth within the top-2 to top-10 accounts in this quarter has not been as strong as we have seen in top accounts or non-top accounts. So anything to call out or is it more to do with seasonality, Rostow, if you can give a color about any further client specific issues within your top-10 or top-20 accounts?

Rostow Ravanan: I think our top-2 to top-10 Y-o-Y basis Q4 Vs Q4 last year is beginning to show very strong growth, for example, our second largest customer at the end of Q4 is a different customer than the customer we had in the past. So I think it is pretty much complete, those customers with whom we had problems on either bottoming up or bottoming out are continuing to grow, there is a turnaround in those accounts. So we are confident of improved performance in the #2-10 customers as also 11-30 customers as well going forward.

Sandeep Shah: Also, in terms of the banking and financial services, can you discuss what are the trends you are looking especially in the North America?

Rostow Ravanan: Based on what we see at the moment, I think there is positive optimism in BFSI business next year, both in US and in Europe which are our two primary geographies; however, we are seeing much more opportunities for run the business kind of projects at this stage from our BFSI customer and not that much of grow the business on digital kind of projects from our BFSI customer. Those
that we have won recently including some deals that we announced during the course of FY’17 and recently in FY’18 are continuing to ramp up and doing as well or better than planned.

**Sandeep Shah:** Just a book-keeping question, Jagan. In the cash flow conversion if you look at for the full year despite the margin increase, the net cash flow from operations has not been up to the mark. So what could be the reason, is there any benchmark which you are looking in terms of cash conversion either as EBITDA to operating cash flow or as EBITDA-to- free cash flow?

**Jagannathan C N:** We continue to track the EBITDA-to-operating cash flow as well as EBITDA-to-free cash flow. We are also focusing on improving on the DSO. There is no specific reason for the operating cash flows outlook whatever we have to tell you for next year, it will keep improving because all the collection metrics are doing well.

**Sandeep Shah:** About this reversal on the other income because of the Magnet 360 and the Bluefin, if you look at this year that quantum had Rs.91-92 crores, has been almost like 10-15% of the PBT. So how should we look that line item in the next year?

**Jagannathan C N:** Nothing further will be there in this year. This is the process which has been agreed under original acquisition contract. So based on the timeline defined in the contract, if the conditions are not met, provisions are being reversed back.

**Rostow Ravanan:** So short answer is all the adjustments need to be made are now complete. So no further charges or reversal in future.

**Moderator:** Thank you. We will take the next question from the line of Apurva Prasad from HDFC Securities. Please go ahead.

**Apurva Prasad:** So my first question I had on your outlook for the top account, if you see growth has largely been skewed towards that. So if you can throw some light in terms of how you are seeing that going forward? The second part is on margins, if you can talk about the levers from here?

**Rostow Ravanan:** Large account we are proud of all the value it created, great relationship, great name recall for Mindtree, like I mentioned sometime back, we had very strong CSAT scores in this year, CSAT score from our large customer was better than everybody else, so the best CSAT score in Mindtree are from this large account that we have been servicing for a decade or so at the moment. So all parameters so far are doing quite well. We will have enormous amount of headroom to grow. So, do not see any concerns at the moment. Nonetheless, the increasing customer concentration is something that we are very mindful of, and solution for that will be to push the pedal and do more with our remaining accounts that we have especially the #2 to #10 customer and maybe even the #11 to #20 customer. So we are doing a lot more to move the needle on those while continuing to make sure that everything goes well with the large customers also. On the margin question, I think at this point of time, some of the key operational parameters like utilization have reached reasonable amount of comfort level for us. We continue to keep pushing, I think, the revenue
growth will probably be one very big margin lever, you can see even during the course of this year and quarters well we have very strong revenue growth, almost we are directly correlated to margin improvement as well. So strong revenue growth is one margin lever. And, I would say the second best would be to improve the performance of both Bluefin which is now rebranded as Package Solutions business and Magnet360 which is now rebranded as the Salesforce practice, strong and stable performance on both of those should also help us get better margins in FY’19.

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

Madhu Babu: Sir, how is the velocity of conversion of the deal? So, are we anchor partnering most of the digital deals which we have won?

Rostow Ravanan: Deal momentum continues to be very strong, pipeline is building up, so there is no softness in the demand environment across the board there, and Mindtree’s win ratios are improving, so I think overall we are very pleased with what we are doing on that front, so do not see any concerns there.

Madhu Babu: Like in 2Q FY’16, we delivered almost 8% organic growth Q-o-Q. So considering the macro is good, so do we expect such swing quarters in 1H of FY’19? When we are saying, margins will drop 300 basis points in Q1 because of wage hikes, are we having any counter effects which will negate the impact of wage hike?

Rostow Ravanan: Going back to your previous question for digital, yes, we are continuing to be seen by many of our clients as their anchor partner for their digital transformation initiative. Coming to the question on margin, yes, Q1, we will see how the quarter goes in terms of revenue performance and in terms of other things as well. Hopefully, a few other things will help us offset the pressure that will come because of wage hike. But nonetheless on a full year basis, I think the margins in FY’19 should be higher than the margins in FY’18.

Madhu Babu: But we expect 1Q or 2Q to be very strong?

Rostow Ravanan: Year is starting off on a very strong note.

Moderator: Thank you. We will take the next question from the line of Gaurav Rateria from Morgan Stanley. Please go ahead.

Gaurav Rateria: Question on digital, I have seen the digital revenue growth accelerating to 25-30% in the last two quarters. Is this purely a base effect or do you think some trends are changing in terms of deal sizes and engagement levels because of which the overall digital revenue can actually accelerate compared to the levels it has been going in the last two years?

Rostow Ravanan: Thanks, Gaurav. I would on a lighter way say there was nothing magical about it, we took a lot of hard work by our own bunch of 17,000 Mindtree minds and like we explained in our earnings release, this year the BOTs that we have we all combined together to produce the result, but on a
more serious note, on digital, continuing to see very strong traction amongst three of our verticals – Technology, Travel and Retail, CPG, Manufacturing. Some of the works we are doing there are path-breaking for their respective industries. Overall, we are seeing number of deals and size of deals going up. So today, we are having quite a few $5 million, $10 million kind of deals in digital. I would say the strongest traction are all helping our customers with the Cloud and Analytics journey. So those are the best sweet spots for us at the moment. It is also a very strong recognition from many of our partners like Cloudera, very strong partnership with both AWS and Azure, content management with Adobe. So, across all our partners, we are getting very strong recognition for the work that we are doing. So that is what we are seeing on the digital side.

Gaurav Rateria: A question on margins for Jagan. This 1Q will see confluence of two, three factors – one is the wage hike which you quantified as 300 basis points and then possibly increase in the travel cost because of visa related expenses. What are the offsetting factors, and do you think you can absorb the margin or still hold on to the margin at the current levels?

Jagannathan C N: We may not be able to completely absorb the impact of the salary increase, but there will definitely be some amount of operational improvement, Gaurav.

Rostow Ravanan: This is Rostow. Just wanted to also clarify that like Jagan mentioned when he made his comment, we have significantly ramped up our ability to hire both campus graduates as well as lateral in all our key markets. So in Q1, we are not expecting a big swing on visa cost unlike in previous quarter, Q1 will not see a big swing on visa cost. So, the main margin headwind for Q1 will be the salary revision probably.

Moderator: Thank you We will take the next question from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: Rostow, I think we ended the quarter with about 3-4% kind of growth expectations. So did this acceleration in the growth that we saw during the quarter was that a surprise and if so what led to this acceleration?

Rostow Ravanan: No, I would not say it was a surprise, I think we are quite confident of the growth in this quarter and largely in line with our expectations.

Pankaj Kapoor: If I look at the top account, what kind of visibility do you typically have there, I am presuming these would be typically short-to-medium term projects, so is my understanding right or this is something which has got a long-term commitment of revenues also over there?

Rostow Ravanan: Contrary to what you said, the bulk of our business is a multi-year kind of contract. So there is a reasonable amount of visibility. So we are quite confident of next year’s growth projection from this account.

Pankaj Kapoor: Just lastly on the margin outlook, if we are looking at the first quarter margin decline, going forward from second quarter onwards, do you expect a bulk of impact on a positive side should be
coming in from utilization or do you think it will be largely because of our increased campus hiring, the pyramid impact will be a bigger budget driver for us?

**Rostow Ravanan:** I think Jagan briefly mentioned in his comment, I think utilization is already at 75% or so, so unlikely that utilization will be a bigger factor in margin improvement for next year. Revenue growth would probably be the most important driver for us from where we are at the moment. There obviously some amount of continuous improvements will drive from an operational efficiency perspective, but revenue growth will probably be the biggest margin driver for us next year.

**Moderator:** Thank you. We will take the next question from the line of Ashish Chopra from Motilal Oswal Securities Limited.

**Ashish Chopra:** Rostow, I just wanted to pose a margin question differently; on a full year basis, the 13% margin in FY’18 is obviously slightly easier especially if I consider the exit margin of 16.1%. So I just wanted to understand that given that you start at a lower base Q-o-Q, how do you feel about your ability to end up on the margins front next year or maybe in a couple of years time compared to the exit margin of 16%, do you think margin at this level is probably a quarterly number given the seasonality and on a full year basis one should probably expect a number in the band between the full year average versus the exit margin that you have?

**Rostow Ravanan:** I understand your question, Ashish, but clearly our policy is we should not give guidance. At this point of time, I would say if you look at the full year this year compared to full year FY’17, there is 200 basis points negative impact because of currency, and in spite of that we have improved margins. So all the efforts that we put in, in terms of operational efficiency, bringing the Salesforce and SAP practices back to stability, very strong growth in both of them in this quarter, 7-8% kind of growth in both those businesses in this quarter, all of which have led to the improvement during the course of this year, and we are confident that many of them will continue to give us benefit next year, but nonetheless for me and for the entire management team, this continues to be a very important priority, that we want to continue to push for margin improvement next year, we still do not feel good about the margins, so there is a big push to help improve margins as we go forward.

**Ashish Chopra:** Secondly, just a book-keeping question. Could you help me with the revenues and profitability in Bluefin and Magnet 360?

**Rostow Ravanan:** We do not report either of that separately. In any case, the entire Package Solutions business has all been amalgamated into one group. Bluefin does not exist as a separate legal entity anymore, and even with Magnet360 now there is reasonably large amount of Salesforce factors where we are now getting booked in Mindtree from our existing customers. So looking at it individually probably will become lesser and lesser relevant going forward.

**Ashish Chopra:** But would the juice on profitability improvement from these entities still be significant or you would have largely turned them around to the levels that you would have wanted to?
Rostow Ravanan: I think in Q4, we bought them to a reasonably descent stake, but I think some further work is required to bring them to our comfort levels.

Moderator: Thank you. We will take the next question from the line of Dipesh Mehta from SBI CAP Securities. Please go ahead.

Dipesh Mehta: Just want to get a sense about BFSI, I think you alluded to one of the factors which impacted performance. So if you can help us understand a bit more about quarterly what played out and how you expect it to play out over next year? Second question is about rest of world, if we look there is some kind of weakness. Is it because of some reclassification or despite that weakness we are seeing the strong growth. So if you can help us understand outside of that particular weakness growth seems to be very strong? I have a follow up about usually we used to provide next quarter kind of outlook. So if you can help us understand how you expect Q1 to play out?

Rostow Ravanan: On BFSI, it was client-specific issues for one of our customers where project ended and we have been able to identify and start the new work there, but over the last two or three quarters, many new customers have been added, just growing extremely well. So to that extent, it was client-specific issues with one or two customers and we expect BFSI business to do well next quarter onwards, pipeline continues to be strong and ramp-up, etc., in the previous wins that we had during the course of this year and last year continue to be strong, so we expect BFSI to start showing better performance from next year onwards. I am not sure I fully followed your other question on margins, etc., If you could repeat that once again?

Dipesh Mehta: Second question was about rest of world. If we look from the geographical mix perspective, we are seeing some weakness in rest of world. Is it because of reclassification and if it is not because of reclassification, the rest of the business is showing very strong momentum, so do you expect that momentum to continue going into next quarter?

Rostow Ravanan: I do not think there was any significant reclassification in this quarter on the geographic revenue. Across all the three parts of our business, Europe, US and the rest of the world, seeing good traction across all of that, for example, the win that we had in this quarter of the enterprise product company was with the ASEAN business of a particular customer. So we are seeing good momentum across all the three geographies, but nonetheless I would say the US and Europe are both our largest market segments and also will grow faster.

Dipesh Mehta: Rostow, rest of world seems to have declined 20% Q-o-Q and even for the full year it seems to be declining around 11%?

Rostow Ravanan: Overall maybe 5-6% of our revenues, 20% decline on it does not sort of make that much of an impact at an overall level.

Dipesh Mehta: My point was different; let us say despite that weakness, we are seeing very strong momentum and that is what I wanted to understand, broadly you are suggesting US, Europe is very strong?
Rostow Ravanan: That is right.

Dipesh Mehta: If you can help us understand Q1, how we expect momentum to play out?

Rostow Ravanan: Not commenting like I said in terms of guidance for the future, but we are expecting that year as a whole to be better than FY’18 on growth and if the growth will start from Q1 onwards, in a sense it is not a back ended growth there, we are expecting the momentum to be reasonably even across all the four quarters, starting the year on a strong note.

Moderator: Thank you. We will take the next question from the line of Abhishek Bhandari from Macquarie. Please go ahead.

Abhishek Bhandari: Rostow, I had one question; now that good part of FY’18 was spent on stabilizing some in the problem areas like working on margins and getting some of the weakness in clients done and the outlook for FY’19 is strong on revenue growth and improving margins. Do you think we are going to again look at stepping up our pedal on the M&A activity?

Rostow Ravanan: I think given the momentum that we have and given our own analysis on the portfolio, no any immediate plans to look at M&A at this moment, if something evolves, then obviously we will keep the investor community updated at that stage, but at this moment, not seeing any M&A plans in the near-term.

Moderator: Thank you. We will take the next question from the line of Rahul Jain from Emkay Global. Please go ahead.

Rahul Jain: A couple of things; when we are talking positive, we were in FY’19 from a revenue perspective, how you would say this is more driven by the performance with companies making as in from a market share win perspective or we are also getting positive push back because there is a general improvement in the environment from a spending perspective?

Rostow Ravanan: I think we are seeing two or three factors; one is overall customers are now beginning to make much larger bets on transformational technology initiatives, technology today has clearly proven that it can make a big difference in the front office function and therefore can contribute to revenue growth, so there is a change in the mindset of a customer and therefore some of these digital kind of programs are becoming more larger and enterprise wide. So there is increase in technology spend on some of these kinds of programs. Secondly, in a specialized organizations like us, we have gone and disrupted the customers run the business portfolio in enormous amount of automation, use of tools, etc., that are given higher efficiency and more predictable cost reductions for our customers, so we are actually winning more volume from majority of our customers on run the business portfolio. So even in the segments like that where the customers spend declining, we are able to get a higher share of the volume. Finally, I think there is improved sentiment in the marketplace by customers on their own business, and that confidence is also reflecting in the kind of projects we are starting, the kind of budget approvals they are giving for their businesses, etc.,
So we are seeing a combination of all of these three factors. But I think the underlying sort of strength for Mindtree is the call that we took about four or five years back where we called out digital as a trend, made out the investments behind both domain, digital and run, are now beginning to yield results for us.

Rahul Jain: So in one of our largest top accounts, we have seen significant growth in this year. So is there a project kind of a nature to it which can still be repeat because there are transformation which has undergone or you can say this is more on the run side of the business?

Rostow Ravanan: For our largest customers, we work with them across multiple service lines, so there are things that we are doing for them on analytics, etc., and also helping them with their run the business kind of infrastructure, management, application support, so it is a multi-service line penetration into that account, great customer satisfaction, great value creation for the customers like I outlined before. So continuing to see strong traction.

Moderator: Thank you. We will take the next question from the line of Abhishek from Equirus Securities. Please go ahead.

Abhishek: The question is regarding the growth in FY’19, the exit rate leads to almost 6.5-7% growth on Y-o-Y basis. So what is leading to this conservative kind of guidance or saying that our numbers will be better than FY’18 which is just 8% and 7% is on the exit rate, so are there any risks that you are factoring to keep it conservative or anything else which is keeping the guidance conservative?

Rostow Ravanan: Other than systemic or macro kind of risk that all of us worry about, nothing is holding us back right now. I would not at this stage call our guidance either conservative or aggressive, anything or the other because we do not give guidance, we just made a qualitative comment and next year growth will be better.

Abhishek: Just a second one on the margins. This year you did almost 1,300 fresher hires, next year also you are guiding for a stronger number. Could you just highlight what is the 0-3-year band for us and can that be a margin lever next year?

Sushanth Pai: Currently, the 0-3-year band at the Mindtree level is close to about 27%. So, obviously, there is some scope for improving there and we will report that as we go ahead.

Moderator: Thank you. We will take the next question from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.

Sangam Iyer: I just wanted a small clarification; it is kind of a follow up asked earlier. In terms of the margins that we say that it is going to be better than what we have reported. Are we adhering to Q4 numbers or are we adhering to the full year average, if it is Q4, could you just elaborate a little more in terms of what are the margin levers that we are looking at for improvement in margin beyond 16%?
Rostow Ravanan: The short answer, Sangam, the comment was around the full year margin, so we ended the year at a certain margin profile, the focus will be to continue deliver better than that next year, growth momentum and some amount of continuous push-out operations and cost control, etc., is what will help us get there.

Sangam Iyer: Just a small follow up to that; in terms of margin levers, we did mention that utilization is more or less at the kind of a peak level where you would want it to be. It is predominantly going to be driven by growth that would come by next financial year, is that the right way to look at it?

Rostow Ravanan: Growth will be one big contributor, improving the steadiness and continuous growth in both our Package Solutions as well as our Salesforce factors will be another one, Pyramid will be the third from an operational perspective.

Moderator: Thank you. We will take the next question from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Rostow, you have been a little more specific on guidance in terms of let us say high single-digit growth or mid-double-digit growth. This time around you have said that it is going to be better than the last year. So I was just wondering is it because 45% of revenues is Digital, so it is difficult to really pin that visibility to the later half of the year considering they are short-cycle projects, is that the reason or is it just being conservative?

Rostow Ravanan: Again, if I give you the impression that I have been conservative, then I think my apologies and we want to reconfirm that we have not been conservative, we are just sticking to our philosophy of not giving guidance. All we said was next year will be good and the growth momentum will continue from Q1 onwards. So, it is not a back-ended kind of growth, the year is starting on a very strong note.

Nitin Padmanabhan: This time around if we look at the new deal wins, it is 31% lower than the last year, but still our outlook is actually better. So is it fair to assume that on the renewals, there is incrementally more business and thereby that is leading to a higher growth, is that how one should look at it?

Rostow Ravanan: Not exactly, if you look at the rhythm of our business, more than 90% of our growth comes from existing customers, so there are usually new customers contribute over 5-6% of the revenue for the year, so continuous focus on mining existing customers will always lead to more growth coming out of existing contracts.

Moderator: Thank you. We will take the next question from the line of Kawaljeet Saluja from Kotak Securities. Please go ahead.

Kawaljeet Saluja: I think in the quarter there has been quite a bit of changes to the board. Now, I understand that we already announced the stepping down of V G Siddhartha from the board, but there are a couple of other changes as well. Just curious to know the reason for the same?
Rostow Ravanan: All three members of this board have stepped down, two were based on their pre-occupation in their own businesses and Pankaj Chandra who completed his term on 31st March 2018, so he just did not seek reappointment. V G Siddhartha primarily because of the growth of his own coffee day business is so strong that he needed time to focus on it, continues to be a very strong supporter of Mindtree, no changes to any strategy or plans or anything of the other, similarly, Manisha as well has come almost at the end of tenure from her board appointment, and given her priorities in the way her own business is growing, decided to focus on that, than to seek reappointment. It was just individual decisions by those board members, no negativity on Mindtree in any form or fashion, and at least with respect to Siddharth who is also our largest shareholder, no change in the priorities or no change in the evaluation of Mindtree. So, all of them continue to be great friends and continue to be extremely supportive of Mindtree.

Kawaljeet Saluja: What is the composition of board now after these changes?

Rostow Ravanan: Before I answer that, I did not complete the previous answer. We also announced today the addition of Bijou Kurien to our board as an independent director and since he is joining as an independent director, it requires shareholder approval, so the appointment will be effective after the AGM which is on 17th of July, so not only the three who have either retired or stepped down but it is also the addition that we wanted to share. Post Bijou’s joining the board, it will be four independent and four non-independent directors, so it will be an 8-member board. As we continue to look at our future priority, the board in the nominations committee has a clear strategy in terms of competencies that we like to see in our board and we will make additions as the year progresses.

Kawaljeet Saluja: Rostow, the second question is, just very much curious as to what are the disclosures of BOTs, is it Mindtree’s own BOTs deployed on client server or is it just BOTs which includes implementation of Robotic Process Automation of a third-party provider that like Blue Prism or automation anywhere or whosoever the players are there in the market, what are these metrics stand for and how should I interpret this?

Rostow Ravanan: The reason we include that will reflect the changes that are happening in our industry and the primary sort of messages that we wanted to share with you was one, we have a work force that now include both human and non-human. Secondly, we wanted to re-iterate that factors like automation are not leading to job losses, etc., So, our own experience in wherever we have employed BOTs and delivered services to our clients through BOTs have led to the repetitive mundane kind of by these software BOTs which is leading to the human workforce becoming more engaged and more value added, higher cerebral kind of task and also that bandwidth getting speed up is helping people get reskilled, etc., So again, as an anecdotal example, where we have seen this impact people satisfaction scores by those projects have actually significantly increased. Coming back to the point that the repetitive mundane kind of work is getting lower, it is also leading to for example lower attrition in the project because now those people are able to spend more time on getting reskilled, etc., So point was to reflect the trends that we are seeing from people dynamics and a technology dynamic point of view. These are the BOTs that we have developed either as ground up developed code by Mindtree or through BOTs that we work with
third-party partners like Automation-Anywhere etc., but these are BOTs that are currently running by Mindtree for servicing our existing customer’s needs. These are actually being used day in and day out for service delivery by Mindtree. The last message we wanted to also share is as this becomes larger or more material, this should also become an important margin defense lever for us especially in run the business project where there is continuous amount of customer expectations on cost reduction. So we want to start tracking it and to some extent that will also as it becomes more material start reflecting as a margin defense lever for us.

Kawaljeet Saluja: Just an observation, Rostow sir, let us say if you implement a BOT of Blue Prism or automation anywhere for a client, once implementation is done, you collect implementation fee, subsequent collection of revenue is minimal, and the entire license so to say effectively or recurring revenue is taken away by the RPA providers, so I do not know how this metric will help me in anyway build a definable revenue forecast or how shall I really interpret this metric? Maybe I take this offline but just a thought.

Rostow Ravanan: A quick response and maybe you require longer conversation, you are right, if the revenue model was pure T&M, then after the initial implementation, there is no follow on revenue, but in Mindtree had ownership for a defined deliverable, for example, if Mindtree has ownership in an infrastructure management project for a system uptime, etc., and then I am delivering it through BOTs and therefore not having recurring human workforce wages, then that is how we get to see the benefit of margin improvement overtime in those kinds of projects and our kind of revenues is increasingly moving to that, if you look at the fixed price monthly kind of contracts in this quarter, it has gone up over the previous quarter. So as we take more and more ownership for deliverable and then we do it through reusable components like BOTs, that is how we begin to see the benefits from a margin improvement perspective.

Moderator: Thank you. We will take the next question from the line of Viju George from JP Morgan. Please go ahead.

Viju George: Rostow, my question really relates to industrialization of digital. Are you seeing very vertical signs of this, how strong is it picking up, can you give us some indications of how large the contracts are getting, what is the offshore simplicity in such contracts and then I have a follow up question

Rostow Ravanan: Viju, good to hear from you. Overall, yes, we are beginning to see digital becoming more larger, more complex and more transformative. So it is becoming multi-geography or front to back within the business unit or multi-brand, etc., So overall size of digital deals is growing. What is especially exciting for us is Mindtree’s win ratio for those deals including those opportunities where we go head on against some of the larger players in the market there, we still able to get almost like 50% plus kind of a win ratio for the large kind of transformative digital deals. Today, we have a reasonable number of 5 million plus, reasonable number of $10 million plus kind of opportunities in Digital within our pipeline and continue to see more on those being created in many cases incubated by Mindtree, meaning Mindtree went to the existing or new customers and created the value proposition and created that need in the mind of a customer and not responding only to RFPs.
So the true consulting led kind of an approach, all of those sort of very strong momentum, we have very strong sort of factors reflecting our very-very good story on Digital with customers within our four verticals.

**Viju George:**
So the larger digital deals, how do you see the needle on the onsite/offshore ratio moving towards the offshore, are you seeing a situation substantially most of the business can be done offshore and how do you see this going forward?

**Rostow Ravanan:**
Absolutely, so the larger digital programs do have a very strong offshore component, for example, on our largest digital opportunity, which is I would say in the $15-20 million kind of a range, typically operate almost like maybe 75-80% offshore by effort and maybe 20%-odd onsite, so the larger programs do lend themselves to a much higher amount of engineering kind of activity and a large part of it can then move offshore.

**Viju George:**
My second question really is that if you see the theme picking up currency and it is an inflection point, maybe not 2018, maybe 2019 or '20, I know you have alluded the fact that your win rate in these kinds of deals against tier-1 players is very good, but do you sense that these are getting larger and more complex in getting more offshore-centric with multiple technologies, do you think the advantage might shift back to the tier-1 players who can win the complex integration skills to cater to a table in one platform? I am not talking specifically about Mindtree here, but if you could generalize this maybe some of the mid-tier companies have been working with slightly smaller projects, maybe a couple of technologies for instance, may find themselves out if this tide takes over?

**Rostow Ravanan:**
Interesting question, Viju, frankly, I am not sure if I would have enough of a meaningful answer for you, the only thing I am confident of is that our story for those deals are very-very strong and more than one case like I said we are seeing larger number of deals, customers are clearly making big bets behind those kinds of things, so there is no very active demand for those kinds of opportunities, whether it is customer feedback, whether it is feedback about Mindtree by the industry analyst, all of those parameters, I think we are in a sweet spot, we have got the ability to scale as well as the agility to deliver results there. The other thing that we are seeing slightly different from the implication that you raised in your question is that this does not require scale, talent, it is even large programs still require very high expertise but small number of teams. So for Mindtree, at least we do not see ourselves being at a disadvantage compared to the large guys. These kinds of deals make the customer look for specialization in that scale. So it is actually working to our sweet spot.

**Viju George:**
Your productivity has been improving, that is realized rate. How much is the fixed price productivity improving versus better contracts or higher contribution of digital, that is better coupon rates or better mix and do you think this upward trajectory can be sustained?

**Rostow Ravanan:**
It is all of those including I would say very strong and successful delivery, that also led to the improved revenue productivity. We still think there is a lot more that we can do. So I do not have
a specific answer whether it will go up by 1%, 2%, one quarter or two quarters, but I think there is still a lot of momentum left on that theme and we need to do more.

Viju George: So safe to say that your revenue growth will be higher than your volume growth?

Rostow Ravanan: Yes, #1 and #2 that plus other factors should lead to higher margin growth and revenue growth, so EPS growth or PAT growth for example will be faster than revenue growth.

Moderator: Thank you. We will take the next question from the line of Ruchi Burde from BOB Capital. Please go ahead.

Ruchi Burde: I wanted to ask you more about the BFSI comment that you made; you commented that the demand is optimistic and you see more demand on run the business side. Could you talk a bit more about what is driving this – is it more differentiated solutions that Mindtree is putting across and what are the reasons you see the demand is bit little slow in BFSI?

Rostow Ravanan: I think many reasons quite possibly that BFSI is much more regulated, etc., and therefore the customers probably spending a lot more focus on their regulatory requirements and some of those kind of things. Typically, also even in the past technology cycle, we see industries like Retail being early adopter of new technologies and industries like BFSI tending to be later adopter of technologies, it could just be the mindset of customers between different industries there. On our success rates in run the business program, I think all the efforts we put in from building platforms which are able to give customers more confidence on our ability to predictably give them quality improvement, efficiency improvement, year-over-year productivity improvements, etc., I think that is one of the reasons that we have good success rates there. I would again come back to the point on strong delivery. Many-many customers we have great referenceable case studies and therefore either for additional opportunities in our existing customers or for new customers internal references or references from their comparable companies is also a reason why we have there. But I think strong delivery and the focused effort to building platforms are a very big part of the reason for our success.

Ruchi Burde: Secondly, could you sum up for us what progress we made in terms of our turnaround effort for Bluefin and Magnet 360 in FY’18 and what are the areas or challenges we plan to address in FY’19 in this part of the business?

Rostow Ravanan: I think the focus was primarily around getting them to stable revenues because we saw very high volatility Q-o-Q in that business. So lot of the effort went behind chasing different kind of deals, working with the different set of channel partners, etc., to that, and also reorienting the sales teams, reorienting with geography priority in some of those units, etc., all of which contributed to help stabilize the business both on revenue and margin in Bluefin and Magnet during FY’18. All of those activities will continue to apply in FY’19 as well. While we have seen a little reliefs in where we have reached, we recognize that there is more work needs to be done on both those businesses and we are continuing to stay focused on it to help get into a better place.
**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Sushanth Pai for closing comments. Thank you and over to you sir.

**Sushanth Pai:** Thanks, Aman. Thank you all for joining this call. We look forward to staying in touch and if you have any specific questions please do get in touch with us. Thank you once again.

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