



## Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

First Quarter ended June 30, 2018

July 18, 2018

*Welcome to possible*

**Moderator:** Good day, ladies and gentlemen and a very warm welcome to the Q1 Earnings Conference Call of Mindtree Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sushanth Pai. Thank you and over to you sir.

**Sushanth Pai:** Thanks, Ali. Welcome to the conference call to discuss the financial results for Mindtree for the first quarter ended June 30, 2018. I am Sushanth, Head of Investor Relations. On this call, we have senior management team -- Krishnakumar Natarajan -- Executive Chairman; Rostow Ramanan -- CEO and Managing Director; Parthasarathy N.S. -- Executive Vice Chairman and COO and Jagannathan Chakravarthi -- CFO.

The agenda for the session is as follows. Rostow and Jagan will begin with a brief overview of the company's performance, after which we will open the floor for the Q&A session.

Since we have introduced an audio webcast, some of you may have joined the webcast. The webcast is a listen-only mode, but you can post questions. We will take the webcast questions once we complete the questions through the conference call mode. Please note that this call is meant for only analysts and investors. In case there is anyone from the media, I request you to please disconnect as we just concluded the media briefing before this call.

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

I now pass it on to Rostow.

**Rostow Ramanan:** Thank you, Sushanth. Good evening to all our friends in the investment community. Happy to share with you that we started the new financial year on a very strong footing with a stellar quarter; revenues in Q1 was \$241.5 million which is a growth of 6.8% QoQ and 20.7% YoY. On a constant currency basis, the QoQ growth was 8.2%. We added about 15 million revenues in this quarter making it the best incremental growth over the last 11-quarters.

The strong growth in this quarter is a reflection of the following:

- Our strategy is resonating very well with our customer and our focused investment in digital continued to yield the desired results.
- The new wins we reported earlier are ramping up as expected.
- Improving win ratios have resulted in robust deal closures in this quarter. Tremendous traction in our top account because of entry into new business units which are providing us further opportunities to grow. We continue to work in areas that are very core to our

customers business. Having said that, we are also mindful of client concentration and hence focusing on growth opportunities beyond the top customer. The composition of our top customers have changed, excluding the top customer our efforts to go deeper and beyond the top customer has also yielded good results. Our top 2 to 20 accounts have grown significantly by about 5.2% in this quarter.

I also would like to share another important highlights on this quarter:

Enterprises are started to think of technologies beyond digital such as artificial intelligence, cognitive technologies and quantum computing. These technologies are important focus area for research and academic circle. In order to get benefit from these research and to stay connected to the academic ecosystem, we are looking for new opportunities to collaborate with academic institutions which would help us create new possibilities for our customers. In line with this approach, we are happy to announce that we have signed a collaboration agreement with Stanford University, which requires a commitment of \$2 million, of which we have spent \$1.5 million in this quarter. This endowment will create Mindtree faculty scholar position focused on AI at Stanford University. We are looking for similar collaboration agreements with other leading academic institutes and will make such investment as needed over the future. In some of the comments from the investment community, we heard some concerns about the resolution that was approved by our shareholders yesterday on the amount of Rs.150 crores or 10% of our profit to be earmarked for charitable contribution. I would like to take this opportunity to clarify that that is only an enabling resolution, we just took the resolution as a shareholder approval on a higher level, but the reason for that resolution was because currently as many of you know Mindtree already has several social programs that we continue to support. Grants of the nature that we made to Stanford under the applicable law would also get covered as a charitable contribution. We did not want to take the risk that the automatic approval route available for that contribution may get breached based on the plans that we have and therefore to just provide for some flexibility, we have taken the shareholders' approval and like I said on an enabling resolution basis for Rs.150 crores or up to 10% of our profit.

Switching back to other highlights for this quarter:

We have seen a good all-round performance across all our verticals. Our Hi Tech and Media business led growth with 9.3%, Travel and Hospitality grew 6%, BFSI grew by 5% and Retail, CPG and Manufacturing grew by 4.9%.

Amongst geographies, the US grew by a very healthy 9.3%, Europe grew by 1.7%; however, Europe revenues were impacted by currency movement. On a constant currency basis, Europe grew by a healthy 7.3%. Our Digital service line grew by 12.6% in this quarter and 35.4% YoY which is almost double Mindtree's growth.

Amongst service line, Independent testing and IMS have both shown 10% QoQ growth. We ended this quarter with 339 active customers and we added 24 new clients in Q1. Our count of \$10 million customers grew by two, \$5 million customers grew by one.

Also, very happy to report very satisfactory people metrics, trailing 12-months attrition further reduced to 12.2%. Quarterly annualized attrition is 14%. We added 1,934 Mindtree minds in this quarter on a gross basis which includes a very strong campus addition of 567 minds in this quarter. We ended the quarter with 18,990 Mindtree minds and 406 bots.

We also had some strong multi-year; multi-million dollar wins as follows:

We implemented SAP business planning and consolidation suite for the world's largest auto manufacturer. We are implementing a very complex financial reporting solution powered by SAP HANA for a FTSE 20 company. This is the largest deal so far in Bluefin's history. As you would probably remember Bluefin is the brand name of our SAP practice. A global home appliances company contracted Mindtree to streamline their sales process using Salesforce as a solution. We are also fortunate to win a very large cloud migration opportunity from a leading government authority in the Middle East.

With that let me switch to our point of view on outlook: This quarter saw very strong contract signing at \$306 million, of which renewals were \$255 million and new contracts were \$51 million. Contracts to be executed within one year by \$259 million and contracts that lasted greater than one year was \$47 million. Digital contract signed in this quarter was \$139 million. So, overall our deal closure, pipeline and win ratios continue to remain steady.

Taking into consideration, the market factor as well as our own customer-specific issues and some of the deal wins, etc., we reiterate our commitment for strong growth momentum in FY'19. However, given the very strong growth we had in Q1, the growth rate in Q2 will be lower than Q1.

With that I am passing on to my colleague, Jagan, to share a few other financial highlights.

**Jagannathan C N:**

Thank you, Rostow. Good evening all. In Q1 our fee revenue grew by 6.1%, volumes increased by 6.6% and pricing realisation declined by 0.5%. Overall, our pricing remains stable. On consolidated basis, the EBITDA margins are at 14.1% as compared to 16.1% in Q4. We had an impact of 270 basis points for salary increment; visa cost of 20 basis points, contribution to Stanford University as articulated by Rostow earlier had an impact of 60 basis points. This was offset by operational improvement of 30 basis points and rupee depreciation benefit of 120 basis points. For the quarter, we had FOREX gain of \$2.8 million compared to the FOREX gain of \$2.9 million in the previous quarter. The effective tax rate is at 26.8% as compared to 27.3% in Q4. PAT margin for the quarter is at 9.6% as compared to 12.4% in Q4. The EPS for the quarter was Rs.9.62 which is a decline of 13.2% QoQ. The decline in PAT and EPS is mainly due to one of these pertaining to Bluefin earn out reversal in Q4 which is absent in this quarter. Our

DSO is stable at 67 days. Our EBITDA to operating cash flow is at 5% and EBITDA to free cash flow is negative 10%. The primary reason for the drop in cash conversion is the increase in receivables; we will focus to improve this parameter. Return on capital employed was 29.1% for this quarter.

Some points on the margin outlook: Given the growth momentum, our efforts to drive operational efficiency are yielding results. Thus, we are on track to improve our margin for financial year '19. In Q2, we see the margins to be slightly better than the Q1 excluding any currency fluctuations. That concludes my update. I will now pass on to Rostow for concluding comments.

**Rostow Ravanan:**

Thank you, Jagan. I also wanted to share two further important updates with all the members of the investment community; firstly, recently a media publication highlighted an article that indicated that the Mindtree founders are planning to sell their stake. I would like to categorically deny this rumor and this news is completely false. We expect media to be more responsible and not to publish false news and that too during our silent period. What makes it even more worrisome is that this was the story that we denied just a few weeks ago on 2nd of May to the same publication. We abide by the regulatory environment that prevent us from making any external communication during the silent period. I would also like to unequivocally clarify that building Mindtree into a memorable company is a great source of inspiration for all the founders and the entire leadership team at Mindtree. As you have seen, we have continuously strengthened our business model, continue to make the right investment and create long-term value for all our stakeholders. There is also being similar speculation on the plans of our largest shareholder, speculations that indicate that they are planning to divest the portion of their holding in Mindtree. Our large shareholder has clarified to us that he is a strong supporter of Mindtree, our vision and our strategy and mentioned to us that they have no plans to dilute their stake currently.

Another update that I would like to share is that after a glorious innings in Mindtree lasting almost 10-years, our CFO – Jagan has decided to accept a career opportunity outside the company. We thank him for his various and immense contributions to Mindtree and wish him the very best for his future plans. We expect to have a successor in place within the next three months.

With this we conclude the management update, and we can open the floor now for question-and-answer.

**Moderator:**

Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Mukul Garg from Haitong Securities. Please go ahead.

**Mukul Garg:**

The first question, Rostow, is on the large top clients which Mindtree has, they have been delivering really strong growth for last many quarters, and on this quarter 50% YoY growth is something which is unprecedented. Could you help us understand how we should look at the

growth opportunities which are still there at this client and b) what all is driving this strong growth at your top client?

**Rostow Ramanan:** Thank you, Mukul, both for the comments on our performance as well as your wishes for Jagan. Our large customer continues to like I said post very strong growth for us. Little bit of the growth in this quarter is seasonal because their financial year is July to June and therefore a lot of contract renewals happen in this period, but nonetheless I think the biggest reason for our strong performance in this account is very-very consistent high-quality delivery and very deep client relationships that has allowed us to open multiple business groups within this customer. So, we are well diversified within the customer in terms of nature of business, for example, between run the business and grow the business, business units that deal with us, etc., So, overall very pleased with the performance of the account and continue to see enormous growth possibilities for the future. While it is a large customer for us, we are still a relatively small vendor within their ecosystem; they have many partners who are significantly larger than us, so there is an enormous amount of headroom for us to grow even further.

**Mukul Garg:** So, you do not expect any moderation in growth at this client going forward, you think there are enough opportunities available to Mindtree to scale up further here?

**Rostow Ramanan:** Like I said it is a difficult for us to give guidance. At the end of the day, obviously business will evolve from time to time. But at this point of time do not see any headwinds that make us worry. Nonetheless like I said, there is a continuous focus on growing the rest of the portfolio and like I reported if you look at our 2 to 20 customers grew 5.2% in this quarter in spite of the fact that I like I said there was a very strong currency headwind and some of our customers are non-US based and that currency headwind was due to cross currency movements of other currency, in spite of that some of our other large customers continued to grow quite well. So, we will continue to push for both, we will do the best that we can and go deeper within the large customer and also continue to do equally focus growth on all the rest of the portfolio as well.

**Mukul Garg:** On the SG&A side, this quarter there was a big jump almost \$4 million from last quarter to 17.6% of sales. Usually when you report this kind of a top line growth, SG&A is a portion of revenue should have climbed down instead of that it has moved up. So, what is causing this hiccup?

**Rostow Ramanan:** Couple of reasons, like we announced in this quarter, the salary increase of the entire company that is whatever starting from me to the junior most software engineer, everybody happens in this quarter and to the extent that there are people who are in non-delivery roles, all of their cost increases would get covered under SG&A. This quarter we also like I mentioned had very strong people additions, so some of those people that got added were in enabling functions or in client-facing role, to that extent that also lead to the cost increase. So, those are the two people related movement from SG&A perspective. From an accounting point of view the endowment that we have made to Stanford would also get recognized as an SG&A expense, and also impacted in the SG&A cost of this quarter.

**Moderator:** The next question is from the line of Viju George from JP Morgan. Please go ahead.

**Viju George:** Just a couple of questions. We have a rough sense of size of the top client, but if I look through your client metrics, it appears that the next four, five guys are well below the \$50 million mark. So, essentially my question is not so much of top client, but the maturity level that the other clients could potentially reach, because it seems that you have one big outsized client right now, but the others even in top five are probably less than a third of that. So, how do you sort of explain, how you can take your clients to the next level. I know there are moving parts are there with clients coming in, growing well, etc., but in terms of scalability of clients to the next level besides the top client that has not been seen as of now.

**Rostow Ravanan:** Very valid observation Viju, completely agree with you, obviously, to the extent that you are pointing out is a mathematical fact there. Just to provide some additional inputs, some of those customers are going to business pressures, for example, one of the customers in that category that you have mentioned is a very large US insurance company, long standing Mindtree customer, great track record in terms of delivery, etc., but their own business is going through a lot of churn, that is one of the reasons why we are finding it difficult to grow in that customer, again, like I said, the issue is not because of our sales efforts or delivery, but business issues on that customer. Little bit of that in this quarter is also due to currency. Again, like I said, if you look at our European customer, there is approximately 5% kind of headwind on currency. Our Europe business grew 7.3% constant currency but 1.7% on a reported currency basis. So, in this quarter there is a little bit of an impact because of currency. But the larger answer to your question apart from just the mathematical or the factual answer, I would say there are at least two customers within the top-five that have a high probability of hitting \$50 million fairly quickly, however I am not giving the exact month or the date by which it will happen, but whether it is in terms of relationship or their business or our contacts tying to the right sort of business units of the customer, etc., I feel confident that we can get two more customers into the \$50 million bucket fairly quickly, but we are not keeping quiet on it, there are like I said a fair amount of initiatives being done to get the growth out of the rest of our portfolio.

**Viju George:** The other question I had was on your sales organization. Interestingly, this declined by 10% YoY basis from 268 to 242. I am sure you are driving productivity there, but can you just take us through why the reduction and what is the plan going forward?

**Rostow Ravanan:** I think it is just anecdotal, so in the beginning of the year when you complete your performance appraisal cycle so on and so forth, this is the time of the year where there will be some churn but do not see a concern, we have a map by revenue, by geography, market opportunity, territory, coverage, etc., so we will make investments to fill those areas where there are gaps, do not see a challenge there.

**Moderator:** Thank you. We will take the next question from the line of Sandeep Shah from CIMB. Please go ahead.

**Sandeep Shah:** Just the question is if you look at our top client, it is now approaching close to \$200 million. I do agree that you are opening more, purchasing vendor within the client, but the experience with the large peers is whenever it approaches to that size, the bargaining power in terms of a billing rate is always slightly lower for the vendor side. So, do you foresee that renewal pressure keeps coming from a top client, though the volume may increase but the billing rate maybe under pressure?

**Rostow Ravanan:** Do not see that fact as of now, but our ground reality is slightly differing from the hypothesis that you have is a large portion of our win have been promising and delivering, very strong value to the customer. So, we have implemented very high levels of automation, bought in new technology like AI into some of the solutions we are delivering, etc., So, currently not seeing the kind of pressure that you are outlining. Obviously, Top customer is a very sophisticated technology buyer and it is a very competitive account. So, we have to do what we have to do to win the business, but not seeing the kind of pressure that you are outlining at the moment.

**Sandeep Shah:** Rostow, just the AGM notice says that the higher of Rs.150 crores or the 10% of the company's average net profit for the last three years which would be spent on the CSR. So, if we assume it is not Rs.150 crores, but it is 10%, that it is higher than the regulatory requirement of 2%. So, is it fair to say that at least we will spend 10% which may amount to close to Rs.50 crores worth of CSR initiatives which in this year was close to around Rs.12 crores? Can you elaborate how the business sense if you make an endowment to Stanford University because this is like a new kind of an investment for the Indian IT, how you will try to monetize it, what are the business plans regarding this?

**Rostow Ravanan:** Like I mentioned briefly during my call, Sandeep, the regulatory both accounting and tax require us to include all of the contribution we make to academic universities also as a charitable contribution. So, to that extent, some of these initiatives are not strictly sort of CSR. In any case like many of you know we have a very strong social consciousness and we do a lot more than what is regulatory required, we are doing some of the things way before this was mandatorily required to be spent, etc., because in many ways that is what define Mindtree, that is the culture and that is the soul of Mindtree to give back to society. Our mission statement reads that we engineer technology solutions, that help businesses and societies flourish. So, the contribution that we are doing here, like I mentioned from an accounting point of view or a tax point of view, get counted as a charitable contribution. The amount that we probably might end up making this year will be higher than the 5% limit that the law allows us to make a board approval. We did not want to keep going back to shareholders on a case-by-case basis. So, we obtained an enabling resolution to go up to 10% to get absolute flexibility and not have to breach the ceiling. I am very surprised little bit with your question to be honest, participation in research ecosystems like Stanford offer a tremendous amount of business potential for businessmen. If you look at in many ways, Silicon Valley is what it is because of the kind of research support that technology has come out of places like Stanford. So, participating in that ecosystem, getting access to the kind of research that they have, understand the kind of business implications of technology and finding technology solution that are relevant to business context are all the kind of agenda that



we want to drive through this partnership and similar partnerships that we have in mind during the course of this year and over the future with other institutes. So, we are very convinced that there is a very important business ROI for this, including the fact that some of these programs allow top performing technology talent in Mindtree to go participate in the research that somehow these institutes do, some of these are just learning opportunity, some of them also allow the talent that gets planted from Mindtree to work as part of those research teams, also lead to an academic qualification. So, that also is a very big ROI for us in terms of encouraging, motivating, rewarding and high performing talent that we have in Mindtree. So, there is a business agenda, there is a knowledge creation, IP creation agenda and there is a people agenda that we have envisioned through these alliances.

**Sandeep Shah:** No-no, I think I do agree, definitely there is a lot of potential and especially when the endowment is to a institute like Stanford, the question was through this, this will help you to create some solutions proactively for the technologies which you are seeing beyond digital, is it the way to look at this kind of investment which will help you to create a business case for Mindtree?

**Rostow Ravanan:** No, again, like I said, let me clarify, this is endowment to Stanford to create a faculty scholar position. We will announce more details over the course of the next few days as soon as we get all the approval, but there will be a position created called Mindtree Faculty Scholar for Artificial Intelligence, a leading individual will be named to that position and that person will have a team which uses endowment to research on Artificial Intelligence, etc., That research could lead to IP and IP will be useful for us and for our clients. So, that is the business benefit that we are anticipating out of this. We will obviously have more than one way of collaborating with this university. In this case, like I said it is a creation of an endowment faculty scholar position in Mindtree's name but we will also come up with a set of problems, give it to university like Stanford, they will research and any IP that comes out of it will be owned by Mindtree, etc., So, there are multiple ways by which we will collaborate with leading universities like Stanford.

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

**Madhu Babu:** Sir, we said that the 2Q growth will be a bit softer compared to 1Q, that is the CC growth on the constant currency because this quarter is 8% kind of constant currency growth?

**Jagannathan C N:** It is a reported currency, constant currency is a derived number, so this quarter reported currency growth was 6.8%, we expect Q2 to be lower than that. Difficult to predict currency movements from this quarter to next quarter.

**Madhu Babu:** Usually sometimes we have seasonality in second half of the year. So, how is that going to be this year as well? The margin outlook, are we going to start seeing strong margin expansion from here on considering the wage hikes are behind?

**Rostow Ramanan:** Seasonality factors will continue, obviously, Q3 will have a lower number of billing dates, higher client shutdowns, more people take leave, all those seasonality factors will continue, but if you see the Q3 and Q4 of last year, we had very strong growth. So, while the seasonality factors will continue, overall I would say we see some good tailwind for us on growth without commenting on what is the exact percentages of growth will be, that will obviously vary from quarter-to-quarter depending on all the factors that affect us in that quarter. As far as margins are concerned, like Jagan outlined in his comments, we have committed to margin improvement in this year compared to last year and like I said continue to reiterate that approach, we will see this year ending up with the higher margin than last year, ex of currency. Whatever comes or goes because of currency is not in my control, but on operational basis, full year this year will be higher margins and full year last year.

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

**Apurva Prasad:** A slightly related question to one of the earlier questions. So, my question is actually top-2 to top-10 accounts. Are there any other headwinds that you see besides the US insurance account that you spoke of earlier, I am asking since we are seeing a flattish sort of performance in the last two quarters, so anything to really look out for, is that really holding you back for a mid-teen to possibly a high teen type of guidance which you can see?

**Rostow Ramanan:** There are two parts to your question. I will take the second part first. We do not give guidance. Therefore, I am not commenting on what our growth rate for this year will be. Other than the same comment that you made at the end of last quarter saying that we are very confident of growth and expect growth to be significantly better than last year. So, nothing has happened to change our view on that growth outlook. Coming to our two to ten customers, like I said, occasionally, there was an impact of one customer having some business pressure. There was also like I said three of our top ten customers are European customers and there was a currency impact that affected that group there and some one or two customers coming in and going out. So, a combination of all of these led to whatever number that we reported at the end of this quarter, but very confident of our two to 20 growth.

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

**Gaurav Rateria:** Just wanted to get some color on the digital deals, what kind of sizes are they on an average and do you see a trend of accelerating growth compared to the last two years because you have reached an inflection point for that business?

**Rostow Ramanan:** I am not sure we have reached an inflection point for the business, I think the business still continue to grow quite well, might be announced in this quarter, digital growth approximately 12% growing like I said almost double Mindtree's growth rate which has been the trend over the last two years as well. So, overall our investments are yielding a lot of traction from our

customers, pushing the boundaries on technology on one dimension, attracting some really world-class talent on the second dimension and some of the work that we are doing is not just transforming our clients' business but at least in a couple of cases, reshaping the industries that our clients are operating in, if all goes well and our projects are successful. So, very-very pleased with the focus that we have on digital and the results that is bringing. However, I also want to clarify that our investments in helping our customers run their business is also equally attractive, like I explained, even the traditional kind of service lines like infrastructure management and testing which are grouped under the run the business portfolio, both grew about 10% in this quarter each. So, lot of advanced technology like AI being deployed for our customers in those kind of programs as well. So, overall lot of innovation happening in that area also. So, both parts of our business are chugging along very nicely.

**Gaurav Rateria:** A question for Jagan. If you could lay out what are the potential headwinds and tailwinds for your margin in the coming quarter and while the wage hikes are behind, your commentary of slight improvement if you could lay down why do you think that only going to be a slight improvement in 2Q?

**Jagannathan C N:** Margin improvement will continue to happen; however, it will take one or two quarters for us to reach the growth, we are just giving guidance that margin will improve now. There is no specific headwind expected in the next quarter. We are seeing that operational improvement will help us to improve the margin.

**Rostow Ravanan:** Maybe a couple of more comments just to expand on the point which Jagan made. Some of the headwinds in this Q2 from a margin perspective are the full quarter impact of all the people that we added like I mentioned the net addition was approximately 1200 people in this quarter and 700 plus lateral additions and 500 plus campus additions in this quarter, those happened during the course of the quarter. So, the full impact of that headcount addition is one margin headwind. The second margin headwind is from a performance management perspective; all our promotions are due 1<sup>st</sup> of July. So, that impacts the salary increase based on the promotions will be another margin headwind. Like our historic sense, we are excluding any impact of currency on this. So, these I would say are the two largest headwinds. Tailwinds are clearly growth, like we mentioned, Q2 will continue to grow, obviously, the growth rate maybe slightly lower than Q1, but the growth will be the tailwind in Q2.

**Moderator:** Thank you. We will take the next question from the line of Rishi Jhunjunwala from IIFL. Please go ahead.

**Rishi Jhunjunwala:** A couple of questions; one, from a segment margin perspective, EBITDA margin in BFSI has gone down to almost to 3.3% in this quarter which is like almost 600 basis points correction both QoQ and YoY. So, just wanted to understand what is the reason for this kind of profitability in BFSI which otherwise from growth perspective has done quite well QoQ as well, so just wanted to get some color on that?

**Rostow Ravanan:** Good observation, Rishi. I think it is a little bit anecdotal, I do not think anything happened significantly deteriorate the profitability of that business. Beginning of the year some of our overhead allocation approaches got recalibrated, the acquired entities of Bluefin and Magnet are getting integrated into Mindtree, so their costs are being reallocated to all the four verticals on a slightly different basis than how they were accounted for in the past. That I think was the biggest reason for the change in profitability of our BFSI business. Relatively smaller impact because of the cross-currency and the impact to our large insurance US clients that I outlined earlier in the quarter.

**Rishi Jhunjunwala:** So, you are saying that this will reverse over the next two, three quarters?

**Rostow Ravanan:** We have adopted a new overhead allocation methodology, so it is unlikely that that will reverse, so obviously when the business grows, etc., so that overhead allocation will ease off on a larger base but it is also different in the accounting that we have done. Primary reason for that is now the acquired entities are fully integrated to Mindtree. So, their overheads are now being absorbed on a larger revenue base.

**Rishi Jhunjunwala:** Secondly, on this CSR initiative that you talked about earlier in the call, just wanted to understand from a medium-term perspective like two to three years, what kind of investments do you intend to make? I am asking more from a perspective of impact on margins like you mentioned 60 bps from this quarter, but how do we look at it from a two to three-year perspective, what could possibly be a ballpark range in terms of impact on margins from this initiative?

**Rostow Ravanan:** Rishi, on a lighter vein, it is difficult to give a precise answer to your question because it is an technological era and some of these models are evolving very-very rapidly. One year back we had no opportunity to even make this step that we have taken today but I would like to sort of come back to the point that we made. While we look at these kinds of opportunities, do what is right for our business, we are committing to margin expansion year-over-year in spite of like I said this endowment that we created, maybe one or two more than depending on which quarter, we close, etc., we may do a little bit more collaboration with the few other universities this year, but nonetheless the game plan of margin improvement does not change. So, I do not have a precise number to give you saying it will be X or it will be Y. Overall this year it is quite likely that the maximum amount of commitment we will need to make to some of these initiatives could possibly be in the range of maybe I would say \$3.5-\$4 million. But if a really interesting very valuable investment opportunity comes, we will have to evaluate it as and when that happens. Nonetheless the commitment to margin improvement this year stands. I would like to sort of again request all of you not to over-interpret that approval that we took, it was meant to be an enabling approval only because I cannot keep going back to shareholders tomorrow for any reason if I have to make an extra \$100,000 investment in something and I cannot make that investment because of a regulatory requirement, we did not want to be hamstrung.

**Rishi Jhunjhunwala:** My intention was only to basically ensure that in quarters wherein you will do this kind of contribution, there will be volatility in margin, so unless you are going to guide it ahead of the investment, the volatility can be high.

**Rostow Ravanan:** Which is an absolutely fair point. Completely understand and respect your perspective. Like we have been mentioning, at this stage of our life given the disruptions happening in our industry, I think the appropriate benchmark will be to see Mindtree on a full year versus full year basis. There will be like I said some of these things that might distort reported numbers on quarter-to-quarter basis.

**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 a couple of questions from my side; just want to get sense about this quarter, reported revenue and fee-based revenue, there is a wider gap compared to our historical standard. So, can you help us understand why that gap has almost doubled kind of thing in this quarter and what are the reasons? So, roughly \$4 million gap is there. Usually we used to say around \$2- \$2.5 million to be the gap. Second question is about digital business. A couple of quarters back, we have seen some kind of mutedness or stability in digital business because we focus on increasing dealer size kind of. Can you help us understand what is the progress now, how we are seeing digital deal size shaped up over the last few quarters? Third question is about university endowment which we made. Just now you alluded to around \$3.5-\$4 million kind of outer route limit kind of thing. Is it additional to \$2 million or it includes \$2 million?

**Rostow Ravanan:** It includes the \$2 million. Thank you for raising it. My comment could have been misinterpreted. I am just answering your questions in reverse order and then Jagan will answer the first question that you raised. On Digital, continuing to see digital size expansion in terms of deals and working on customers on very transformative large kind of opportunity. So, we are making progress on that front there, but the trend is very-very favorable for two reasons; one is digital is becoming a larger and more industrial kind of spend for our customer, secondly, the nature of the advanced technologies that have been deployed in digital, drive the customer to choose a partner who specialize rather than partner who brings in pure scale. So, maybe I have three experts in an area and one of my competitors maybe probably having say 100 people in that area but my three experts have the right expertise. That is more valuable to our customer. So, therefore when customers choose partners for large digital program, they are looking for specialization and not scale. Over to you, Jagan now for the first question on the difference between revenue growth and volume growth.

**Jagannathan C N:** Answer for that is new accounting standard for revenue recognition, the IND AS 115 which now requires us to classify some kinds of expense billing also as revenue whereas the historic accounting convention was those kinds of our expense billing, revenue would be counted as expense credit whereas now the new revenue recognition standard require us to count that as revenue.

- Dipesh Mehta:** So, does it mean your margin has some implication because of this accounting standard?
- Rostow Ravanan:** Mathematically it was small exchange here but it is like I said \$4 million on \$240 million revenue, so in quantum terms it will be relatively small; however, if you notice some of the ratios that at least we use internally and I am sure your models also are the same, if you look at say EBITDA margin, it will also be on the fee revenue, other income and some of these non-operational revenue are not used to calculate profitability margin but if you do not make that adjustment and take it on total revenue, to that extent there will be an arithmetic impact.
- Moderator:** Thank you. We will take the next question from the line of Sangam Iyer from Subhkam Ventures. Please go ahead.
- Sangam Iyer:** If I look at the headwinds for this particular quarter, almost 100-150 basis points headwinds could actually get reversed in the next quarter onwards. So, in spite of that and the fact that we are continuing to grow on a strong footing given the strong tailwind of 8% kind of growth in Q1 and be marginally lower growth in Q2, but that is also a strong growth. Why are we talking about a very-very marginal increase in margins, one? On the overall full year perspective, we are still having a benchmark of FY'18 as the margin profile but given the exit run rate of Q4 and the currency benefit, etc., should there not be a meaningful increase in the margin profile or are we missing some headwinds over here?
- Rostow Ravanan:** Probably our comments are not being understood in the right perspective, to be honest, Sangam. Given the fact that we do not give guidance, Jagan made this comment and margins will improve in Q2. I am just repeating the word that you said, Jagan never made a comment that there will be a very-very marginal increase in margins in Q2, but there will be a slight increase in margins in Q2 is what he said. It is the business that is growing. We just absorbed 2.7% cost increase in Q1 because of the salary increases that happened. I did mention that we added 1200 plus employees in this quarter. The full cost impact of that for the whole quarter is another headwind. I also mentioned in response to a previous question that promotions in Mindtree is effective 1<sup>st</sup> July, so there will be cost increase because of that. So, it is the business that is improving profitability continuously. Q4 last quarter was a good quarter for Mindtree. But like I said, cannot be benchmarked to one quarter. Again, I am reiterating a point that I have made some time ago, more appropriate benchmark to analyze Mindtree's full year versus full year and not quarter-to-quarter, we are committing to strong revenue growth and committing to margin increase and we have delivered all our commitments in the past. Very-very marginal kind of objectives do not make sense to be to me honest.
- Sangam Iyer:** Could you help quantify the two headwinds that you mentioned; one, the full quarter impact of the new employees added and as well as the promotions, etc., what kind of an headwind are we talking about here?
- Rostow Ravanan:** We do not want to quantify, mainly because like I said there is no sanctity to approach saying that we do not give guidance. We request you to accept our position that there will be margin

improvement next quarter. We just want to guide you to the fact that there are some positives and negatives quarterly basis, but that is the nature of our business right now and accept our stand that we do not want to give guidance.

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

**Nitin Padmanabhan:** Over the past quite a few quarters, we have seen a steady improvement in growth for both Mindtree and quite a few companies in the industry. Going forward at some point, do you think there could be supply side constraints or how are you thinking about the supply side right now?

**Rostow Ravanan:** Thank you, Nitin. At this point of time, not foreseeing a supply side constraint but it is an area where we definitely cannot afford to be sanguine. There is a very competitive marketplace for expert talent. At this point of time, all the factors are aligned in Mindtree's favor; again, like I just outlined a few minutes back, this quarter saw approximately 700 plus lateral additions and 500 plus campus additions in this quarter which is one reflection of the fact that we are able to attract talent. Overall like I said, revenue momentum continues to be strong, the brand of Mindtree both in the nature of quality of work and also as a culture transparency, some of the factors that talent likes to come and work in an organization are all very favorably aligned for Mindtree. The last is if you look at factors like attrition as a trailing indicator, that is also in Mindtree's favor, multi-quarter low on attrition that we are running at right now. So, from a talent perspective, very comfortably poised at the moment but it is an area where we are continuously innovating, communicating with world-class talent, attracting talent from all over the world, it is an area where we are continuously pushing the boundary and doing more, but at this point of time we feel that all the stars are aligned in our favor.

**Nitin Padmanabhan:** The 700 lateral recruits that you have had, do you think that in your experience the cost of acquiring the laterals with the similar sort of profiles versus the past, has the cost increased or is it similar at this point in time?

**Rostow Ravanan:** I do not have the data right in front of me at the moment to be honest. However, two comments; one is I have also participated in some of these recent initiatives, across the board, seeing a market increase in the quality of people who are applying to Mindtree. So, the brand of Mindtree for the nature of work that we do, etc., is resonating very-very positively in the talent market, for example, if we conduct a weekend drive, we are walking away with much more confirmed orders, almost I would say 1.5, 2x number of offers that we used to make in a similar drive about 1-year back there. Secondly, maybe in arithmetic level, the cost per hire is not going up, the arrangements we have with the partner, the recruitment channels and the process that we have, have not become like very expensive nor are we seeing a very huge sort of salary differential between the incoming talent compared to the median and Mindtree right now. So, my gut feel is we are not seeing a big increase in the cost of hiring compared to the past but like I said it is a finger on the pulse points, I do not have the actual data on my fingertips right now.

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

**Ruchi Burde:** My question is relatively on the broader demand scenario. Over last three quarters, we have seen significant acceleration in growth rate for Mindtree as well as your similar size peers. Could you help us understand at client end what is driving such sharp growth – are the deal conversion cycle contracting or we see faster decision making or is this general buoyancy in demand?

**Rostow Ravanan:** Difficult to make any comment on the other players in the industry to be honest, Ruchi, because I guess everybody has their own strategy, their own client specific issues and so on and so forth. So, I will limit my comments only to Mindtree. From Mindtree perspective, I think two things happened; one is I would say absence of a headwind which is 2016-17 year we just got hit by many of our large clients simultaneously having different issues in their own business, etc., therefore we had some growth challenges in that year. So, some of those issues are going away and that is one of the reasons for us to report good growth over the last three or four quarters including this quarter. But there also some tailwind that we are seeing. Some of our customers have begun to see the true benefits of the initial investments they made in digital. So, they are beginning to see much bigger revenue impact and therefore they are committing to much larger programs with players like Mindtree, either for example, a complete left to right transformation of a front end or increasingly a number of front to back kind of large digital programs are being implemented by Mindtree. So, industrialization of digital is one of the reasons for our growth. The second is very strong value proposition in some of the traditional areas like run the business by using platforms, by using AI, by able to deliver very high automation, etc., to our customers. That is also other reasons for the high growth momentum that we are seeing. All of that is translating into better pipeline conversion ratio in terms of deal win and also quarter-to-quarter contract signings as well, so that is what gives us confidence for our growth.

**Ruchi Burde:** Secondly, for Mindtree in digital part, the concern area has seen Bluefin, Magnet 360 and the insurance client that you talked about. Could you update us how we see the health of these issues today and what progress we see given that Bluefin added largest deal win, how do we see operating performance of these two entities going forward?

**Rostow Ravanan:** One is overtime that will become lesser and lesser of an issue for many reasons including the fact that those entities are getting integrated into Mindtree. Bluefin is already both legally and operationally fully integrated into Mindtree. Magnet 360 should also get integrated reasonably quickly, awaiting the last regulatory approval. So, some of the distortions that use to happen from a reporting perspective which is sometimes revenue get booked in one entity, costs are different entity because of the accounting rules, etc., some of those distortions will go away and bring the entire business to a more stable footing fairly, fairly soon. But zooming away from the tactical or optical kind of accounting kind of disclosure issues, very confident on the growth potential for both our businesses, very strong traction with both the partners as well, like you would have seen in the recent past, multiple award from Salesforce for some of the best-in-class kind of implementations we have done on Salesforce technology, similarly for example, lots of



recognition from SAP for really-really high quality work we have delivered for some of our customers there. So, strong support from both the partners and like I said strong talent that is creating a lot of impact for our customers, all of which should stand us in a good stead.

**Moderator:** Sir, there are no further questions. Mr. Pai, any closing comments from the management?

**Sushanth Pai:** Thanks, Ali. Thank you all for joining this call. We look forward to being in touch in the coming days. If you have any further questions, do write to us and we will get back to you. Thank you once again.

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