



Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Second Quarter ended September 30, 2018

October 17, 2018

Welcome to possible

Moderator: Good day, ladies and gentlemen and a very warm welcome to the Mindtree Limited Q2 Earnings Conference Call. 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 this conference call to discuss the financial results of Mindtree for the second quarter ended September 30, 2018. I am Sushanth, Head of Investor Relations. On this call, we have with us the senior management team;

Krishnakumar Natarajan – Executive Chairman;

Rostow Ramanan – CEO and Managing Director;

Pradip Menon – CFO;

Parthasarathy N.S. – Executive Vice Chairman and COO.

The agenda for the session is as follows; Rostow and Pradip 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 post questions. We will take the webcast questions once we complete the questions through the conference call mode. Please note that this call is meant only for the analysts and investors. In case, there is anyone from the media, I request you to please disconnect as we just concluded the media briefing before this call.

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

I'll now pass it on to Rostow.

Rostow Ramanan: Thank you, Sushanth. Good evening to all our friends in the investment community.

Quick highlights for the quarter: Off the back of a very solid Q1, happy to state that we are maintaining our growth pace. We ended the quarter 2 with \$246.4 million in revenue which represents a strong Y-o-Y growth of 19.5% and a Q-o-Q growth of 2%. On a constant currency basis, revenue growth was 2.4%. This year compared to half year last year showed a very strong growth of 20.1%. Clearly, this is a reflection of our deep expertise across both digital and run landscape which is helping our customer get a competitive advantage. Our efforts in driving

growth for our top 2 to 10 customers is also yielding positive results with the growth of 3.6% in this quarter, so growth is broad based even outside the large customer.

Other highlights of this quarter: Our Travel and Hospitality vertical led the growth to the 7.7% Q-o-Q growth. Hi-tech and Media vertical grew 3.1%, BFSI grew 2.3%, our Retail, CPG and Manufacturing vertical declined by 3.9% in this quarter, mainly due to a few projects in Europe coming to an end and delayed decision for a few other deals that we expected to close in this quarter. However, considering the pipeline and deal closure, we expect Retail, CPG, Manufacturing vertical return to growth in the next quarter.

Among geographies, USA grew by 3.3% whereas Europe declined by 4.2% Q-o-Q on a constant currency basis, but the issue here was the same that I mentioned before that of a few projects coming to an end. Digital business grew 3.3% Q-o-Q and 34.9% Y-o-Y. Our remote infrastructure management business had a very strong growth of 10.6% Q-o-Q. We added 18 new clients in this quarter, very happy to report that \$10 million clients grew by 2 taking the count to 21, \$5 million clients grew by 5 taking the total count to 44, reflecting the growth that I outlined in terms of our good growth in our Top 2 to 10 and also Top 11 to 20 customer bucket.

On the people front, we added 1,126 Mindtree minds in this quarter on a gross basis, taking the quarter end head count to 19,402. Attrition levels are stable at 13%. Our attrition is trending lower than the rest of the industry based on our continuous investment in people in reskilling efforts.

We have some strong multiyear multimillion dollar wins in this quarter, both within existing customers and in new customers. For example, within one of our existing customers in the CPG industry, Mindtree now has a status of digital transformation partner. For a world leader in the enterprise cloud data management business, we are providing cloud operations under managed services model. We are transforming the core to derive rich customer insights and migrate to a cloud infrastructure leveraging Mindtree's customer consulting first approach for one of the best known companies in the hospitality industry. We are involved in setting up our data lake and an analytics platforms for one of the world's largest asset management companies.

Now shifting to outlook for the future, this quarter saw a contract signing of \$271 million of which renewals were \$222 million and new contracts were \$49 million. Contracts to be executed within one year were \$198 million and longer than one year was \$73 million. Digital contracts were \$162 million. We see a cautious and a volatile external macro kind of uncertainties around the world and also the typical seasonality that affects businesses in Q3. Both of these pose some challenges from a demand perspective. In spite of these external factors, our pipeline continues to be strong, we expect Q3 to have revenue growth rate similar to Q2. On a full year basis, we reiterate that we are on track to achieve a strong growth for FY19.

With that, let me welcome Pradip through this forum who recently joined us as our CFO and he will share a few other financial highlights.

Pradip Menon: Thank you, Rostow. Good evening all. In Q2 as Rostow mentioned, our fee revenue grew by 2%, volumes increased by 6.3% and pricing realization declined by 4.3% due to a higher number of days compared to previous quarter. Overall, we continue to see stable pricing. Our EBITDA margins are at 15.4% as compared to 14.1% in Q1. We had the following headwinds in this quarter. Promotions and full quarter impact of Q1 campus addition had an impact of 60 basis points. These were offset by tailwinds, which were as follows. Absence of one-off cost of 60 bps, this relates to the Stanford University contribution we have made and the second one is currency benefit of 130 bps. Therefore, on a constant currency basis, our margins are flat. For the quarter, we have a Forex gain of \$5.7 million compared to a Forex gain of \$2.8 million in the prior quarter. The rupee depreciated to 72.5 at the end of the quarter as compared to 68.45 as at the end of the prior quarter. This resulted in better realizations on collection as well as gains on better evaluation. The effective tax rate remained stable at 26.8%. PAT margins for the quarter have improved to 11.8% as compared to 9.6% in Q1 which is an improvement of 24.9% quarter-on-quarter and 50.4% year-on-year. EPS is at ₹12.55, quarter-on-quarter improvement of 30.4% and 68.5% year-on-year.

Our DSO has been stable at 68 days. We have made progress to improve our cash conversion. Our EBITDA to operating cash flow conversion is at 65.1% compared to 5% in the last quarter. EBITDA to free cash flow is 53.9% compared to negative 10% in the prior quarter. Our return on capital employed has improved to 37.6% compared to 29.1% in Q1. Our utilization including trainees is at 74.5% compared to 75.4% in last quarter, slightly lower utilization is because of our continued capacity creation for certain specialized areas in digital. Utilization excluding trainees is at 76.5% compared to 76.3% last quarter.

In terms of hedges, at the end of the quarter we have hedges of \$49 million at an average rate of 71.64. These include hedges of EURO/ INR of \$1.5 million at 83.73 and Pound / INR hedge is 1 million at 92.62. These hedges are on a rolling 3 month basis and expire in Q3. The board of Directors at its meeting held today recommended an interim dividend of 30%, Rs. 3 per equity share on par value Rs. 10 each.

In terms of margin outlook given our growth momentum, we expect Q3 margin to be slightly better than Q2 and full year margins to be better than full year '18 excluding currency movements. That concludes my update and we will now open the discussion for Q&A.

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

Mukul Garg: Rostow, I just wanted to get your sense of the revenue visibility beyond the top client while 2 to 5 grew well in this quarter, it has been volatile over the last 4 to 5 quarters and beyond this, there was no growth in Q2. Can you help us understand the reasons behind this growth and your visibility beyond the top client over next few quarters?

Rostow Ravanan: I think this quarter we saw 2 to 10 customers grew 3.6% and even the 11 to 20 customers grew faster than the Mindtree growth for this quarter, so we are beginning to see all the efforts that we are putting in in terms of stabilizing our 2 to 10 customers and getting growth out of them. All of those efforts are paying fruits in this quarter. You have to keep in mind that the composition of that bucket has changed significantly so those customers who are currently in our top 2 to 10 customer bucket, I think there is a high degree of confidence and good amount of visibility in our majority of those accounts. There is probably only one account where we potentially could have some continuing challenges but the remaining customers has a high degree of confidence in terms of visibility and in terms of growth potential within those accounts which is a picture that we have at the moment.

Mukul Garg: Understood and if I may ask one more question on the margin side. While the margin performance was good, you had multiple tailwinds this quarter. The currency was favorable. Offshore was better and you also had about 20% more BOTs in Q2 versus Q1. Even after then the gross margin was flattish. So can you help us understand the pulls and pushes behind that investment or pricing or any renegotiation of contracts with customers?

Rostow Ravanan: There was no headwind in terms of renegotiation with customers or pricing or anything of that front at the moment. All the benefit that came from currency has flown though to the bottomline. Other than that, the gross margin was flat mainly because there is continuous amount of people addition that we are seeing as an opportunity for Mindtree to attract world class talent. In this quarter you saw we have added 1,126 gross additions in this quarter and the full quarter impact of the people that we added last quarter. Last quarter also had more than 1,200 overall additions in Q1. Those came during the course of the quarter whereas this quarter we had full impact of that addition. So the continuous investment we are making, leveraging our brand, leveraging our efforts, adding people so that had the impact at the gross margin level. Other than smaller impact was there was a large round of promotions etc. which happened in this quarter but others had a relatively smaller impact.

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

Madhu Babu: Sir on the retail and manufacturing, could you give us the exact nature of where the weakness came? Was it a client-specific?

Rostow Ravanan: It was client specific over 2 or 3 clients where it is a combination of two things, one is for 2 or 3 clients in the Europe geography where we were implementing a package solution for those customers. Those projects ended somewhere during the course of this quarter and given the project-based business, we didn't have anything immediately with those customers to either continue on additional or new projects. It got compounded because some of the deals that we are expecting to close in other customers in the US got delayed slightly. So we expect those deals to close in Q3 compared to the original estimate of closure in Q2.

Madhu Babu: Second sir, for 3Q we said okay 2.5% kind of growth, but if you see last year I think second half was strong and even 4Q had a very good quarter, so can we build a good 4Q and hence a good full year growth rate?

Rostow Ravanan: We are not commenting on the percentage growth for Q3. I reiterate the comment that I made. I think Q3 will be similar growth compared to Q2. Obviously this year started off on a much stronger note Q1, this year we had 8% growth on a constant currency basis which is much higher than the Q1 growth of last year. Overall irrespective of any of the mathematics, like I reiterated, full year this year will be a very strong growth for Mindtree. If you look at H1, this year was a 20% growth over H1 last year. It is an indication of the strong growth momentum that we are seeing. So even on a full year basis, that is the kind of direction without commenting on a specific percentage.

Madhu Babu: The last one subcontracting has been trending upward for the last few quarters, just your views on that? Thanks.

Rostow Ravanan: Temporary and tactical sometimes when new projects start or new customers or different locations, if we don't have the relevant skills in that location or those skills at that moment etc., so we kickoff project using subcontracting. This is a very specific program by which we look at those individuals and as quickly as possible replace them with full time Mindtree employees there, so I think it is temporary and tactical.

Moderator: Thank you. The next question is from the line of Ashish Chopra from Motilal Oswal Securities Limited. Please go ahead.

Ashish Chopra: Firstly Rostow, I just wanted to check with you on your comments on the macro and the fact that the growth in the first half has been very strong, so mathematically this should be a good year but barring that numerical number for FY19 growth, would you be worried in the current environment? I just wanted to know how should we read the growth outlook considering the macro that you are seeing?

Rostow Ravanan: I think like I said some of those are probably factors that affect us more immediately from a Q3 perspective. Don't have any sense or any comments on customers as to see whether it is going to be a longer term issue or anything like that. So that comment was relatively more around the same. That plus the seasonality are the headwinds that we see immediately for Q3. Don't have enough of a data point or enough of a read on the market to say it is going to be a longer term basis. Barring like I said or having said that, I think we continue to get very strong very positive momentum from customers. Our message to the market is resonating very well. Feedback from customers etc. is extremely positive, so don't see anything that is fundamentally going to change the health of Mindtree or the prominence of Mindtree within the market place with customer. It is also borne by the fact that we are continuously winning very strong recognition from the industry. For many of our practices, we are ranked as a leader or very strong challenger across

our entire portfolio, so I don't think anything is changed from a relevance of Mindtree to customers.

Ashish Chopra: Sure and outside of the retail vertical would there be any, anything that you may want to call out in the other verticals as far as the demand outlook goes which is over and above the seasonality of 3Q or would you say that that continues to be fairly strong but it is really the third quarter that typically tends to be seasonally soft?

Rostow Ravanan: I would say qualitatively the only other vertical which we are paying a lot of focus is our BFSI business. Haven't seen as strong a pickup on digital and BFSI, like we are seeing at our other industries tends to be similar to the kind of comments we made in previous quarters as well. So that is an area that is different in terms of outlook compared to the other verticals.

Ashish Chopra: Fair enough and also when you mentioned the package implementation deal is getting over, so are we saying that this is in relation to Bluefin especially that it comes in Europe?

Rostow Ravanan: Two parts, our SAP HANA business is one part but we also implement packages like Duck Creek for insurance company, so it has some of those kinds of projects as well.

Ashish Chopra: And just one last thing from my end. So you mentioned that there were headwinds on the margins from the additions of people as well as campus graduates joining during the first half. So in terms of the expectation of slightly better margin in the second half or in the third quarter, should we expect the gross margin also to pick up or because in this quarter I think it was mainly driven by SG&A or should we expect the trend to be mix of both?

Rostow Ravanan: I think it will be a mix of both because like I said for example in retail we added people but the contract closures got delayed. As and when those contract closures come back and work starts, the people will start getting deployed there which should lead to improved utilization and therefore improvements in gross margins.

Moderator: Thank you. The next question is from the line of Surendra Goyal from Citigroup. Please go ahead.

Surendra Goyal: Just one question here, has the quarter been weaker compared to what you anticipated at the start of the quarter? I am just trying to understand if anything changed during the course of the quarter?

Rostow Ravanan: Not materially. At the end of the day for example, every quarter you close the deal and some deals you lose, some get deferred etc. No material change during the quarter compared to the perspective we have in the beginning of the quarter.

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

Dipesh Mehta:

Yes, just a perspective on two verticals. About the travel I think for last few quarters we have seen significant traction in travel, so can you provide what is driving growth there and sustainability of the trajectory of growth and second on BFSI, partly you alluded but I think still if you can provide some more detail? BFSI we continue to see softness as compared to some of the peer. Now seeing some early signs of recovery and they have reported decent trajectory of growth. So if you can provide some colors on how we are expecting growth outlook there? And second question is on the margin side. At the beginning of year, I think we indicated in constant currency margin to expand but if let us say one look at the EBITDA margin, last year we were somewhere around 13.5% to 14%, somewhere in between 13.6% to be precise. In CC, H1 seems to be around 14% and your commentary indicate even in Q3 margin to be slightly higher than Q2 but not materially and in CC, it seems to be more or less same, so if you can provide some clarification there?

Rostow Ravanan:

I will take the question of the revenues and I will invite Pradip to make the comments on the margins. On the revenue especially on travel is driven by a few trends. One, it is an area where we have an enormous amount of depth of domain knowledge, especially around both airlines as well as the hospitality sector. There is a really, really powerful credible story that we have and that led to lot of wins. For example a few quarters back we announced that a large iconic American airline has chosen Mindtree to be their exclusive testing partner as of today it is the largest independent testing deal in the history of Mindtree. Very strong deal wins like that is one of the reasons for growth. By and large we see the travel and hospitality industry doing some of the most cutting-edge research and most cutting-edge work on personalization and many trends like that around digital and not just from a domain point of view, but also from a technology point of view is another reason why it is an absolute sweet spot, therefore we have been able to win very innovative, very path-breaking, first in the world kind of work within that industry. It falls in our sweet spot and that is another reason for us to get good growth in that sector. Because we don't give guidance for the future, don't want to comment on future for that vertical but broadly I would say, very happy with the progress we are making and continue to see a good future for that, good momentum in that business. Coming to BFSI, within our portfolio we see somewhat of a mixed picture, the majority of the kind of things that are in our pipeline both with the existing customers and new customers typically tend to be more in the run the business kind of areas for our customers which comes with its own, what shall I say, pros and cons. We are not seeing within our portfolio that much of adoption of digital within our BFSI clients, so that is why we see a slightly different outlook for our BFSI business and compared to the comment that you heard from our peers in the industry over the last few days and weeks. With that, I will hand it over to Pradip for his comments on the margin question.

Pradip Menon:

So I think the margin drivers are primarily three. If you look at revenue as a driver of the margin, the second is the way we leverage the pyramid and that will be the second way of handling it and the third one would be efficiencies in the systems including some of the numbers we have called out in terms of BOTs and so on and so forth where we improve the delivery mechanism through the projects that we deliver. So I think these are the three broad areas that we see and we continue to of course look at our SG&A costs and optimization within that space.

Rostow Ravanan: So if you look at H1 last year EBITDA versus H1 this year EBITDA, there has been a very good growth even ex of currency. So some of the factors that Pradip outlined just now are beginning to play and like I said, confident that we will be able to make incremental progress on this event during the course of the year or remainder of this year.

Dipesh Mehta: Because I think my question was broadly on let us say 13.5% what we delivered last year, it seems 9 months is also likely to be more or less same. At the beginning, we anticipated it to be better than last year, so incremental investment where we might have made or any other comment if you can try to cover that kind of thing.

Rostow Ravanan: No, nothing specific other than like I said in the beginning of the year we made those commitments to academic institution, etc. Nothing else at the moment other than people addition both in Q1 and in Q2, strong people additions much higher than the kind of people additions we made in the same quarters last year. You also have to wait and see how Q4 pans out. but overall on a full year basis, we will have higher margin compared to last year.

Moderator: Thank you. The next question is from the line of Sandeep Shah from CGS-CIMB Securities. Please go ahead.

Sandeep Shah: Just first question Rostow, is on the top client. Generally I think in the second half of the calendar year it gets renewed, so what is your experience in terms of both volume growth as well as pricing stability in that account?

Rostow Ravanan: Typically in that particular customer, the contract renewal usually happens in our fiscal Q1 because the customer follows the July to June financial cycle, but nonetheless, we continue to see very good what shall I say brand equity for Mindtree in the customer, very good relationships, very good traction within the customer in terms of delivery, quality etc. which are likely to get a little bit more growth even during the course of this year, but the bulk of the contract renewals are typically in our fiscal Q1. Pricing has been stable to I would say maybe marginally improving, I don't see a pricing pressure within the large customers.

Sandeep Shah: And second, looking at the currency benefit which every vendor is now getting benefitted out of the same. Do you see incrementally there is a more competitive intensity in terms of the market either from the client side or from the vendor side? Are you seeing the same?

Rostow Ravanan: Our business has always been highly competitive, I would say maybe whatever, 80 to 90% of our business has always won against competition. Relatively only a small proportion of our business comes directly to us on a sold for basis. I haven't seen any change in the competitive behavior because of currency.

Sandeep Shah: And just last question, in terms of pricing I didn't understand why it has led to a sharp decline because last year as well there could be a seasonality impact but the pricing did not decline in this fashion. So what is the reason for this kind of a pricing decline?

Rostow Ravanan: Broadly I would say, the proportion of fixed price contract is going up, so when there is a higher number of billing days, with broadly a similar sort of revenue trajectory that leads to a fall, so the issue I have just corrected to say it is not a pricing decline but more of a realized rates decline.

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

Gaurav Rateria: Rostow, just a question on the macro involvement, you talked about delays if you could highlight it is specific to just a few clients and one vertical in the US geography or is it more broad based and is it leading to kind of elongated decision cycle which means that pipeline might remain strong but the closures may take longer?

Rostow Ravanan: The economic uncertainty or the macro uncertainty, I think affect both US and Europe for many different reasons. In some cases politics, in some cases economics, but the macro factors points to sort of higher volatility in both US and Europe today. Haven't been able to immediately sort of decipher how much delay decision etc. at the moment but we are beginning to see customers sentiment getting affected because of that.

Gaurav Rateria: In terms of vertical outlook based on the deals you have already closed, where do you think the traction will be there in the 2H from revenue growth perspective?

Rostow Ravanan: I would say reasonably even. Obviously at any point of time one vertical will be slightly better than other vertical, but at this point of time I think there is reasonably even sort of growth across all three; Travel, Hospitality, Hi-tech and Retail CPG manufacturing. BFSI is probably the area where we potentially could have some softness.

Moderator: Thank you. The next question is from Shashi Bhusan from Axis Capital. Please go ahead.

Shashi Bhusan: If I look at the commentary of previous quarter, you said Q2 revenue growth would be slightly weaker than Q1 which was high single digit; however, the growth in this quarter is significantly weaker I would say, compared to 7% to 8% what we delivered last quarter, 2.4% quite a knock down in terms of quarter-on-quarter growth. Now my question is you cited the reason that the project closure which happened in retail CPG resulted in this and there was some delay in deal wins which got pushed to Q3. If my understanding is correct, normally when the deal win happens, the ramp up of those deal wins are in the next quarter. So when you started the quarter Q2, the project closure was very much anticipated. So where exactly that disappointment, the 5% knock down from the previous quarter, 5% plus knock down from the previous quarter growth actually came? And was there a negative surprise in this quarter because when we met during the analyst meet, the commentary was quite upbeat and what we are hearing today in the conference call that there is a little bit of caution at least for the next quarter. So where exactly is the disconnect? What happened in the last 2 to 3 weeks which changed this whole thing?

Rostow Ravanan: There are multiple questions within that question. Let me see if I can cover all of them. I am not sure if we made any comment as to growth in this quarter will be high single digit or anything like that there. I think our commentary was we expected Q2 to be lower than Q1 broadly in line with the philosophy that we do not want to give guidance. Nothing materially changed for us in our own outlook of the business in the beginning of Q2 and the end of Q2 from our perspective there. At that time and even in some of the comments that we made to media etc., we kept reiterating the fact that our business is not a Q-o-Q business. So there will be some quarters wherein a deal win momentum etc. will help get a little bit of high growth rate. In another quarter, somehow it will be a little bit lower etc., so I don't think in our own mind we are seeing anything that is changing there. The slowdown in growth relatively 6% or reported currency basis in Q1 versus 2% reported currency basis in Q2. It is about a 4% difference in the growth rate, but part of it is also because Q1 was such a strong growth and therefore if we see where we are, last 4 quarters for example, growth has been in the 3%, 4%, 5.5%, 6% etc., so compared to that overall within the quarters we are still maintaining a strong growth rate. So I don't see anything materially that changed up to where we are. The commentary on Q3 was probably the only thing that is relatively new, some of the recent feedback on customers is showing more of what shall I say, concern over the volatility so that is what we are sharing with you with respect to Q3.

Shashi Bhusan: The early discussion with your client for Q3, is this just a one quarter phenomena? Do you think that it can get spilled over to Q4 as well or is there any project closure which might get spill over in Q3 and that is why we are citing little bit of caution or uncertainty because of that?

Rostow Ravanan: Actually, frankly, I don't have an answer to tell because customers are saying that some of this is changing or we are sensing a change in the customers' sentiment, but nonetheless we also said growth in Q3 will be similar to the growth in Q2, not as though we are expecting a big change in the growth momentum etc. So therefore if you look at it, again if I go back to the point that I made before, H1 this year compared to H1 last year is a very strong growth of 20%. You have to keep in mind in a business that we measure more on a full year or full year kind of a basis. We are still executing to the kind of vision that we had and the kind of commentary that we shared for the full year

Shashi Bhusan: And in terms of deal pipeline and deal closure, last quarter was decent, this quarter is little bit soft and something got pushed out, so qualitatively speaking if I look at deal pipeline when you enter Q3 compared to 6 months back, has it improved or is it more or less the same?

Rostow Ravanan: Again like I said zoom out for a second and the nature of our industry and the nature of the way we are running our business is not only focused on a Q-o-Q basis. Obviously, the reported results etc, will give you all the data and everything else. But that is not the same timeframe in which we look at or manage our business. If you look at Q2 last year and Q2 this year, Q2 last year we have deal movement contract signing of \$207 million and that is \$271 million in this quarter, so a big jump in contract wins there. So from a quarter to quarter basis sometimes for example in one quarter one deal closes, in the next quarter it gets pushed a little bit so there will be little bit of pros and cons that happens from a quarter to quarter perspective. But overall I think what

shall I say more important metric is what are the offerings we have, what is the strength of those offering, how are they being accepted by customer etc., none of those we are seeing any amount of change and they are continuously becoming incrementally more positive, so that is the picture that we have.

Moderator: Thank you. The next question is from the line of Apurva Prasad from HDFC Securities. Please go ahead.

Apurva Prasad: So while the top account continues to do very well, what are your thoughts from the medium-term perspective in terms of de-risking the client portfolio?

Rostow Ravanan: Continues to be our priority where we will do obviously everything we can to get growth across all part of our portfolio so everywhere we can get good growth by making investments, etc. We will continue to do that as a large customer but we would also do that with the rest of the portfolio. The issue was not so much as Mindtree doing well or not doing well, but like we have shared several times in the past, individually a few of our customers in the top 2 to 20, top 2 to 10 kind of bucket, there are some account-specific challenges. Largely, in our opinion we believe that's behind us which is what you see this quarter, our 2 to 10 customers grew approximately 4%. So we are beginning to see the benefit of all the efforts we are putting in terms of mining the remaining parts of our portfolio beginning to yield better results.

Apurva Prasad: So if I put it in another way, I mean do you expect with this change in top 2 to 10 composition, growth to be more evened out between the segments like as not to be in the case earlier? It was more skewed than that?

Rostow Ravanan: That is correct. That is our own sense of the situation as well.

Apurva Prasad: And if you can talk about how different would the margins be for the digital side of the business versus what it was a year back?

Rostow Ravanan: No change in the margin profile of the digital business last year compared to this year. Broadly the things that we are seeing is that individually at an opportunity level and overall from a relationship level, things are moving more closer to our sweet spot. Digital deals are becoming larger and therefore customers are trusting us with larger opportunity. We are also increasingly being called for more transformational, high consulting kind of capability, high domain knowledge kind of capability, higher technology complexity requirements, etc. So the Mindtree story on digital continues to be very strong in the market.

Moderator: Thank you. The next question is from the line of Abhishek S from Equirus Securities. Please go ahead.

Abhishek S: I have two questions, one regarding your comment on the BFSI space and customer-specific challenge. So could you just highlight whether this is an I or a BFS customer?

- Rostow Ravanan:** I would say predominantly in the BFS part of the business.
- Abhishek S:** That is helpful and the second part of it, you also mentioned that the changing customer priorities was one of the reasons for their impact on the customer, so does that mean that a loss of market share or is it a closure of projects?
- Rostow Ravanan:** Closure of projects. We have not lost any market share there. Including for example, we had 4 wins this quarter. Again it is for one of the world's largest technology company that is continuing to do quite well, so even when you go head-on against some of the best names in the business, again obviously it is a one-quarter phenomenon, so don't extrapolate it beyond a point. We had 100% win ratio when we went head-on against some of the largest global technology players. So we don't see this as an erosion of market share problem at the moment.
- Abhishek S:** And the last one from my side. I also heard you saying deceleration in the digital projects especially in the BFSI space versus last year, so could you elaborate what are customers citing for the same that will be helpful?
- Rostow Ravanan:** I didn't say it is deceleration of digital in BFSI compared to last year, I just mentioned that within our portfolio customers in Hi-tech and Media, Retail, CPG manufacturing, Travel and vertical are embracing and adopting digital in a much more cohesive, much more strategic, much larger way whereas adoption of digital within our BFSI portfolio is not as strong. More of our portfolio in BFSI and more of the pipeline in our BFSI business typically tending to be at this point of time, around more on the Run side of the business and not so much on the digital side of the business.
- Moderator:** Thank you. The next question is from the line of Sumeet Jain from Goldman Sachs. Please go ahead.
- Sumeet Jain:** Firstly wanted to understand Rostow, around your hiring plans, given the deal pipeline you have, are we largely done with the hiring or still we have some more pipeline there?
- Rostow Ravanan:** I think overall we have added about 600 plus campus graduates in this first half of the year and that is about half of the total recruitment that we plan to have. So something around 800 plus campus graduates are likely to join the second half of the financial year. So out of the overall committed hiring that we made to campus, approximately half has joined and approximately half is yet to be hired and the number left to be hired in the course of this year or number of joiners in the rest of this year is about 800. I would say roughly 400 in Q3 and about 400 in Q4. That is what is pending. Lateral additions will be a function of both business meet and talent availability.
- Sumeet Jain:** In terms of any wage hikes or promotions, are we largely done or some of them are yet to come in the second half?
- Rostow Ravanan:** That is pretty much done for this year.

- Sumeet Jain:** In terms of the digital deals, I remember few quarters back you said some of the deals are moving to \$10 million thresholds and the offshoring component in them is as high as 80%. Are you still seeing those kind of deals and more deals which was smaller earlier are going to that size when you are talking about front-end digital work getting integrated with the back-end IT systems?
- Rostow Ravanan:** Absolutely. So overall the pipeline of digital is slowly moving to more larger deals, even during the course of this quarter, we saw Median in digital deals going up as a case in point and larger digital deals easily lend themselves to higher amount of offshoring. So all of those trends continue and no change in those trends.
- Sumeet Jain:** So can we see going forward your on-site mix can come down similar to what we are seeing in last 3 to 4 quarters?
- Rostow Ravanan:** I don't know the answer to that question because some of this like I said is a function of a customer that we started sometime ago, started with some initial pilots or proof of concepts. Those are now going into larger deals and leading to more offshores whereas we are also continuously adding new customers which are going to a same cycle all over again, so don't have an immediate visibility as to what will be the on-site/offshore ratio in the future.
- Sumeet Jain:** Also at the macro level particularly in the UK market, I mean, Brexit is scheduled to happen in March 2019, but are you seeing any sort of delay in the discretionary IT spend there in that market particularly?
- Rostow Ravanan:** That is one of the, what shall I say, short-term challenges that we are seeing. Given some of the uncertainties around Brexit etc., UK based customers are holding of a decision or for example giving short-term extensions to existing contracts and not signing up new contract, etc. so that factor is one of the reasons that we see as a headwind over the next one or two quarter.
- Sumeet Jain:** And just on the extension of that. Is that delay in decision making more on the run side of the business or it is more on the digital side in terms of transformation?
- Rostow Ravanan:** I would say it is on both because what shall I say that negative sentiment is making people cautious and not opening up budgets.
- Moderator:** Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Sushanth Pai for closing comments.
- Sushanth Pai:** Thanks Ali. Thank you all for joining this call. We look forward to staying in touch in the coming days. If you have any further questions, please do write to us. 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.