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

January 16, 2019
Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Mindtree Limited Q3 Earnings Conference Call. As a reminder, all participants’ 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 Ms. Amisha Munvar. Thank you and over to you, ma'am.

Amisha Munvar: Thanks, Ali. Welcome to this conference call to discuss the Financial Results for Mindtree for the Third Quarter ended December 31st 2018. I am Amisha, Head of Investor Relations.

Before we start the proceedings I would like to Wish You All Happy and Prosperous 2019.

On this call with us, we have the senior management of Mindtree.

The Agenda for the session is as follows: Rostow and Pradip will begin with the brief overview of company’s performance, after which we will open the floor for 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 pose the questions. We will take the webcast questions once we complete the question through the conference call mode.

Please note that this call is meant only for analysts and investors. In case there is anyone from the media, request you to please disconnect as we just concluded the media briefing before this call.

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

I now pass it on to Rostow.

Rostow Ravanan: Thank you, Amisha. Good Evening and wanted to start by wishing all our friends in the financial community Happy and Prosperous 2019.

I am very happy to share with you that we have continued the growth momentum in Q3. Revenues for this quarter touched $251.5 million which marks our first towards $250 million in a quarter and puts on a path to be a billion-dollar company on a quarterly run rate. Our revenue for this quarter is a very good YoY growth of 17.4% and 2.1% QoQ on a reported currency basis. On a constant currency basis, growth was 2.4%. Clearly, this is a reflection that our strategy and investments are resonating very well with our clients and we are continuously being chosen as a preferred technology partner both to drive efficiency as well as to enhance growth.

Other highlights of this quarter include:
Our Retail, CPG and Manufacturing vertical bounced back with the good growth of 4.7% QoQ; Hi Tech and Media grew 2.3%; Travel and Hospitality grew 2.1%; our BFSI vertical declined by a marginal 1% in this quarter, mainly due to client-specific issues with one customer as well as seasonal factors like furloughs imposed by our customers. Overall, we expect growth to be back in Q4 for our BFSI business.

Our Digital business grew 5.1% QoQ and 32.4% YoY. Amongst the other service lines, our Remote Infrastructure Management business grew 2% QoQ and 30.5% YoY. At the end of quarter, we have 340 active customers and we added 23 new clients in Q3. The number of $1 million clients grew by 5, taking the count to 116.

On the people front:

We have 19,908 Mindtree Minds which is the gross addition of 1,214 Mindtree Minds in this quarter. We had campus additions of 516 in this quarter. Attrition levels are broadly stable at 13.4% on a trailing 12-month basis and on 14.2% on a quarterly annualized basis. In this quarter we also added 34 Bots taking the count to 518.

Very proud of some strong multi-year, multimillion dollar wins in this quarter which included, for a leading low-cost Canadian airline we were chosen as a Testing Partner in the Managed Services Model. We also expanded our footprint within an existing customer in one of the large US Airlines where Mindtree now also be engaged of providing digital services to this client. We were chosen by a specialty manufacturing company in Europe to provide Application Management and Support Services for their SAP Suite of Application. We were also appointed as a Transformational Digital Partner for a leading insurance company in the Middle East.

Now some points on Outlook:

Contract closures in this quarter were at $256 million, of which renewals was $184 million and new contracts was $72 million. Contracts to be executed within one year was $212 million and greater than 1 year was $44 million. Digital contracts were $136 million. Overall, our pipeline continues to be strong and our win ratios are stable. So, we expect growth in Q4 to be slightly better than Q3 and we are confident that we will end the fiscal year with one of the highest growth rates in our industry and I am very confident of our strategic investments in people, technology and partnerships which puts Mindtree on a very strong footing.

Now, let me pass on to my colleague, Pradip, to share a few other financial highlights.

Pradip Menon:

Thank you, Rostow. Good Evening, all. Let me first begin by Wishing You Very Happy And Prosperous New Year.

During the quarter we received the approval for the Scheme of Amalgamation for Magnet 360. Consequently, the financial results of Magnet 360 are part of the Mindtree standalone results this quarter. During the quarter, as Rostow mentioned, our fee revenue grew 2.1%, volumes have
decreased by 1.1% and realized rate has gone up by 3.2%. Increased in realized rate is mainly attributable to volumes dropping on account of leave hours and incremental revenues coming in at better pricing. Overall, our pricing remains stable.

Our EBITDA margins during the quarter have risen from 15.4% in Q2 to 15.9% at the end of this quarter. Our continued focus on driving operational efficiencies gave us this benefit of 50 basis points. Currency benefit at EBITDA level was flat. For the quarter we have a foreign exchange loss of $5.4 million compared to foreign exchange gain of $5.7 million in the prior quarter. Rupee appreciated to 69.56 at the end of the quarter as compared to 72.5 on 30th September.

The effective tax rate for the tax was 13.8% compared to 26.8% mainly on account of the one-time benefit realized pursuant to the NCLT order on the merger of Magnet 360. Without this one-time benefit our ETR for the quarter would have been 27%. We expect the ETR for the Q4 to be in a similar range of 26% to 27%. PAT margins for the quarter were at 10.7% compared to 11.8% in Q2 mainly attributable to the foreign exchange loss incurred during the quarter. Our EPS at 11.62% is an increase of 35% year-on-year. Our DSO is at 71-days and we have improved our cash conversion. Our EBITDA-to-operating cash flow conversion is now above 100% at 101.1% compared to 65.1% at the end of last quarter. EBITDA-to-free cash flow is 86.7% compared to 53.9% in the prior quarter. Our return on capital employed is at 28.7%.

Our overall utilization has remained stable at 74.6% both for including trainees and excluding trainees. Hedges at the end of the quarter were $47.5 million at an average rate of $71.53 million; our hedges include Euro-INR of $0.5 million at 85.56. These hedges are a rolling 3-month basis and expire in Q4.

The Board of Directors at its meeting held on Jan 16, 2019 have recommended an interim dividend of 30%, INR 3 per equity share or a par value of 10 Rs.

Looking ahead into Q4, we aspire to maintain our margins at the current levels. That concludes our update and we will now open the floor for Q&A.

**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 Madhu Babu from Centrum Broking. Please go ahead.

**Madhu Babu:** Just on a top account, I think there has been some slowdown in momentum around 1.1% QoQ growth. So, how should we see the top account growth for next year, I mean, because this is the key driver for incremental growth?

**Rostow Ravanan:** Thank you. We are extremely confident of both our relationships, footprint, delivery quality, etc., within our top account. So, no concerns that we can see as of today anything there. It is just
anecdotally in this quarter we have been able to put all the efforts behind growing all our other accounts. I think the large account performance in this quarter was just purely anecdotal.

Madhu Babu: 
I think the exit for this year is going to be very strong. So, do we expect the vibrant momentum on growth to continue into FY’20?

Rostow Ravanan: 
From our point of view, like I said, we focus on building in a business that creates value on a sustained basis. So, we are doing everything that we can and like we have shown the entire leadership team in Mindtree is very ambitious, we set high aspirations for ourselves and want to continue to deliver the best that we can.

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

Gaurav Rateria: 
Firstly, any color on the budgets for the top-10 and top-20 clients, how it is shaping up for the next year?

Rostow Ravanan: 
Do not have a fully clear picture as of now. We are in the middle of getting in touch with all our customers, getting a sense of their budgets, their priorities, etc., I think little bit more clarity will probably be available by April. But at this point of time, it looks like many of them are beginning to continue their whole theme that we saw during the course of this year on transforming the core. So, deal sizes are becoming larger, digital is becoming more important and the deal sizes that are becoming more industrial within digital. So, overall most of the commentary is positive; however, like I said, it is incomplete as of now.

Gaurav Rateria: 
Secondly, just an update on some of the deals that got delayed last quarter on decisions especially in the Retail in Europe. Any color on that… how is it progressing, have you seen the closure of those deals or you expect to close them anytime soon?

Rostow Ravanan: 
That particular opportunity which we are chasing is not yet closed for the large deal, but that customer has engaged with us for multiple other things including some of the largest cloud transformation which we are doing, etc., So, that is how that particular opportunity is progressing.

Gaurav Rateria: 
Lastly on the cost side, we are hearing pretty tight labor market in the US. Any color, can there be potential higher than usual cost pressure on wages for the next year? Thank you

Rostow Ravanan: 
Just want to reiterate on the previous question, if you look at our Retail, CPG and Manufacturing performance in this quarter shown a very strong growth of 4.7% q-o-q. So, to that extent one particular deal will take whatever time it will take based on the customers decision, but nonetheless, I think the foundations for the vertical are quite strong. Coming to cost, at this point of time, nothing makes us feel that there will be a sudden spike of any kind. Obviously, it is something that is evolving and we are watching regulatory, immigration, talent forecast, skill
shortage. It is a multivariate equation we are watching right now, but we do not know right thing at this moment that gives us any feeling there could be sudden spike in cost.

Gaurav Rateria: What are the headwinds and tailwinds for the next quarter margin because you talked about stable margins despite growth improving, so if you can provide some color on what are the headwinds and tailwinds?

Rostow Ravanan: The fact that we are saying that margins will be broadly stable, it means that neither there are headwinds, nor tailwinds, whatever we have is likely to continue on more or less the same trajectory, but for a more serious answer I will give it to Pradip.

Pradip Menon: Just to supplement the answer, I would say that we are saying that Q4 growth would be a trajectory higher than Q3 obviously to ensure higher trajectory of growth in Q4 we would need to make certain investments. What we are saying is the benefits or the leverage coming through higher growth would get compensated through the investments we will need to make and therefore the call out on a stable margin for next quarter.

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

Ashish Chopra: Rostow, my question actually was around how are you feeling about the overall demand environment, I mean, more in relation to your comments in the last quarter where you mentioned that there were some of these delays in Retail which were brought about by some tension in the macro or uncertainties in the macro, whereas while the growth this quarter has been fairly healthy if we look on YoY basis, your comments for the next quarter also looks life fairly continued moment. So, are you seeing that maybe concerns that were there and the conversations are not playing out as of now or would you still believe that the outlook going into FY’20 still remains much clouded given some of the issues on the ground?

Rostow Ravanan: To some extent, like I said, what we explained at the end of Q2 was the picture we saw at that time. In retrospect, for example, we are not the only ones, right, in the middle of November, even Apple came back with the comment about their forecast for this quarter, etc., So, macro does present whatever picture it presents there. But beyond that I think like I said everything that we are doing from strategy, priority, investments, etc.. is completely aligned with what the customer and the market is expecting from us as of today. So, based on everything that we know right now, I would say one of the best growth years for Mindtree in this year and everything that we know gives us an indication that even FY’20 should be a good growth year. Demand environment continues to be very-very positive for us.

Ashish Chopra: Secondly, on the margins front, just if we look beyond 4Q where would be right now on the margin journey? So, we had set out on this improvement trajectory. So, would you believe that without giving any guidance but that you would probably be operating at an optimal level for the kind of growth that you are seeing and the investments that you need or are there more levers
that you think you will be putting in the system especially in the backdrop of the elevating cost of doing business within the US, would you think that one should go little bit more cautiously in terms of the margin expectations or expansion from here on?

**Rostow Ravanan:** I think the management team is completely conscious of our need to improve margins from where we are. So, that is the focus of the leadership team and I think that is what we continue to work on. Do not have any information as of today that makes us feel that our aspiration is not achievable, but like I said, we will continue to monitor it and give you any update as and when it happens, but at this point of time, I think our stance still remains the same.

**Ashish Chopra:** So, like you mentioned ’19 should be better over ’18 and ’20 should be better over ’19 ex of currency, that should be the continued expectation on that front?

**Rostow Ravanan:** Exactly.

**Ashish Chopra:** While BFS will turn to growth in the next quarter, but just overall do you see the trajectory over there turning for the better since that has been a vertical which has been underperforming for some time now?

**Rostow Ravanan:** Unable to make like a long-term kind of prediction. Between our four verticals, BFSI is probably seeing some amount of slowness there. Unable to decipher whether there is anything that is happening from a broader industry perspective or within our own portfolio like we shared in the past, one of our large customers was going through some challenges based on their own business pressures, that particular customer from being the second largest customer at one point of time has even dropped out of the top-10 today. So, those kinds of Mindtree-specific issues going on right now. So, unable to make anything long-term comment on it there, but some of the recent wins like we announced in this quarter, large Middle Eastern insurance company has chosen Mindtree to be complete end-to-end digital transformation partner. So, pipeline is fairly strong. So, we will have to wait and watch.

**Moderator:** Thank you. The next question is from the line of Deepesh Mehta from SBI CAP Securities. Please go ahead.

**Deepesh Mehta:** Couple of questions. Can you help us with the constant currency YoY either for Q3 or nine months, that would be helpful? Second question was on BFSI. If I look segmental profitability, it is showing significant weakness. Now, BFSI operating at low single digit margin compared to closer to double digit let us say if I look YoY perspective in first nine months, Q3 even weaker than nine months. So, if you can provide some details there? Whether it is likely to persist, then it could have implication on our margin aspiration? Third question is can you provide broad sectoral outlook for all the sectors where we have presence for calendar ’19?

**Rostow Ravanan:** To your second question, the margin aspiration is for the portfolio as a whole and within that obviously at some point of time one vertical may do little better, one vertical may do little worse
there. So, irrespective of that at Mindtree level at a portfolio level our aspiration is to grow margin. Coming to the question on BFSI margins, to some extent the margins are highly sensitive to revenue. So, given the fact that even 1% decline in revenue that vertical saw in this quarter, automatically obviously correspondingly translates to a margin pressure for the vertical. So, the moment that Q4 for example if it starts getting into growth mode, then the pressure should get little bit eased. But nonetheless like I said from an overall perspective, historically the challenge is in our portfolio was a large portion of the work we were doing for our BFSI customer, I am talking about maybe four quarters, six quarters ago, was primarily run kind of work which from customer perspective the focus was on cost reduction, efficiency improvement, etc., and there were some challenge in terms of trying to get margin improvement there. But if you look at like for example in this quarter, we announced that the digital was within this vertical is continuously increasing and therefore I think there should also be some amount of leeway for us to grow the margins in the BFSI business over the next few quarters. As far as outlook for calendar year ’19, across our four verticals, I think Travel, Hi-Tech, Retail, CPG, and Manufacturing we are extremely confident, the pipeline is very strong, our message on digital, etc., is resonating completely well, we have done some really stellar work in terms of case studies which is being recognized there. If you look at this quarter for example, ISG for the first time had done a vertical wise qualification of vendors for each vertical. For the Travel vertical we have been rated as a leader. So, our story I think is very well sort of positioned for the other three verticals. In BFSI, there is probably a little bit of softness compared to the other three verticals at this moment. But again like I said we are putting a lot of efforts there and let us see how it pans out over the next two, three quarters. On YoY basis, our Q3 this year compared to Q3 last year, the reported growth was 17.4%, constant currency growth is 17.8%. On nine months ended December basis for this year the growth rate is 19.16% on a reported currency basis. On a constant currency basis is 20.2%.

**Deepesh Mehta:** Rostow, on the second question is in BFSI our onsite/offshore mix is any different than the company average apart from the one thing which you said is RTB exposure is different, but any onsite/offshore, any other metric different than rest of the verticals?

**Rostow Ravanan:** Not in a material way.

**Deepesh Mehta:** Only RTB is the difference. Okay, thanks.

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

**Rishi Jhunjhunwala:** Just one question on the top clients. Clearly it has shown significant amount of growth over the past three, four years. If you can just talk about in the past three to five years, has there been new areas that you have been able to open in your top client which is possibly going to ensure that continue to grow at a pretty high rate, that is one. Secondly, from a wallet share perspective in the same, where would you be in terms of the number of vendors and possibility of increasing that versus saturating it at some point of time?
Rostow Ravanan: We have continuously grown the account primarily based on both in our high quality delivery. This account for example runs at the highest CSAT scores across all of Mindtree and some really-really deep relationships. So, we have a presence in multiple groups within the customer. So, therefore, very well spread out whether it is in terms of buyers, service lines, etc., So, any which way you look at it, we are reasonably broad-based within this customer. We are very small in their scheme of things. The overall outsourcing of this customer runs into a few billions of dollars. So, therefore, we are very small from a wallet share point of view. From all that we know as of today, I think there is still enormous amount of headroom to grow and the main growth driver will be high quality delivery, because there is a lot of work available, the customer chooses the partner who can provide the best possible value proposition. So, as long as we continue to have high quality delivery, I think there is a lot of growth opportunity available for us there. Do not see any sort of immediate visible glass ceiling that will hit us. Unless like I said, we make any mistake from delivery or relationship or whatever point of view, unless we have any execution in the steps. I think our territory is like I said very rich.

Rishi Jhunjhunwala: Secondly, just slightly more on BFSI. So, the current pain is it driven by any of the BFSI clients or is it more on the insurance side and would you attribute it purely on pricing pressure which could possibly do not be reversed in the medium term? Secondly, currently, we are probably growing at low mid single digit on BFSI and with a low mid-single digit EBITDA margins as well. So, any expectation of that actually going back at least to double digit? The reason why I ask is while you mentioned about run the business kind of thing and historically over the past four years if we analyze margin from BFSI is 3-5% below your overall average. But this year clearly it is almost more than 10 percentage points below that average. So, do we expect that to normalize or do you think because of pricing it will possibly remain there?

Rostow Ravanan: There are multiple questions wrapped up in one question. Our view is BFS part of our business is doing quite well, whether it is against our own internal plans for growth, etc., So, the challenge on the pressure for us is more on the insurance side of our business so far but based on whatever we know at this point of time, I think for FY’20 even that business should do quite well, because some of the challenges were more client-specific like I said one of our large customers in the insurance segment which was at one point of time one of our top five customers is now dropped out of the top-10 list. So, there is a client-specific issue within the portfolio. Some of the newer accounts that we have won even in insurance are ramping up extremely well. So, therefore, I think there is a lot more positive kind of view that we have for our insurance business for next year. On the margins for the business, historically, we have not even seen like immediately pricing pressure point of view. I think the problem on our portfolio level is a predominant portion of the work was run the business. Many of those like I said contractually then have annual efficiency improvement for the customer, etc., So, that was the problem. Given the fact that we are now beginning to see more uptick within our portfolio on the digital kind of work, that should automatically benefit both the growth rate as well as the margin picture going forward.

Moderator: Thank you. We will take the next question from the line of Sandeep Shah from CGS-CIMB. Please go ahead.
Sandeep Shah: Just the first question, if I look at the top 6-10 accounts in this quarter has declined by 4-4.5% in dollar terms. So, what has led that – this is more because of furloughs or something else?

Rostow Ravan: Like I said to some extent because one customer which was in that category has lost out of the category, so therefore a new customer has come in and it will take a little bit of time to rebuild that portfolio. So, that was the background for the change in the 6-10 customers. Like I said, to some extent was seasonal. Therefore, maybe some of the other customers in that group impose furloughs in this quarter, but I think the main driver was one customer dropping out.

Sandeep Shah: So, Rostow, is it now fair to say that the client-specific issue in almost all the top-10 accounts is behind because one of the accounts where you face the issue is now outside of top-10. So, top-10 accounts can now have a potential to at least grow in line with the company average going forward?

Rostow Ravan: Absolutely yes, if you look at for example two to five customers this quarter grew faster than Mindtree and the top-10 also grew faster than Mindtree.

Sandeep Shah: Just the large caps results which were out, both of them were very clear that the strategy is to capture the growth and optimize later. So, do you feel that the competitive pressure within some of your large account is increasing or you believe enough is there in terms of spending power and everybody can grow?

Rostow Ravan: I have no way of commenting on the other people’s priority. From our point of view, there are two ways to look at it; in the marketplace we are not seeing pricing pressure, customers are coming back and telling us renegotiate contracts, anything like that at the moment. On our own, we are not seeing price pressure. On our own, I think the value proposition that we are able to take to customers is extremely strong and therefore as long as we can prove that value proposition the customers are not coming and telling us to drop prices. Therefore, our feeling is the margin whatever challenges in Mindtree are predominantly internal and that is what we are working on QoQ, YoY to address and help grow margins there.

Sandeep Shah: Last two questions. Just on order book, most of your commentary is good in terms of pipeline stable, win rates as a whole. But if I look at last two years, your book-to-bill ratio has been close to 1.2, but the same in the first nine months has dropped. Is it the TCV with the lower duration this is happening, I mean to say the duration is lower and that is why it may not be captured fully in the book-to-bill?

Rostow Ravan: I think the issue is little bit more slightly different that we are now beginning to whatever approve to the customer and start get more contracts that are longer than one year. So, within the TCV for example the contracts that are executed in one year, contracts that will go longer than one year, starts getting more and more longer-term kind of contracts. So, that is the reason. Otherwise, anecdotally, do not see anything specifically worrisome on the contracts getting converted, etc., So, overall like I said it is quite positive on the order book at this point of time.
Sandeep Shah: Rostow, the industry trend is the subcontracting cost has been going up because of the supply side issue, but I think Mindtree has been managing that cost line very well. So, what differently we do here versus others and you also said that you do not see any spike in this cost going forward, so if you can give us some color what differently we do here versus maybe the peers?

Rostow Ravan: I think the continuous investments we have made over the years we are amongst the earliest to consider and set up a near shore center, set up a program to recruit from campus, etc., So, we saw this as a necessity or as a priority and have done this over the years. So, therefore, I think we have anticipated, prepared for it, etc., And also because originally we are amongst the innovative on digital as a segment and so on and so forth. Now, when some of those are becoming larger, we are able to move more work offshore. So, maybe that is the difference that we are seeing in our portfolio compared to the others.

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

Ashish Chopra: Rostow, I just had one additional question on the margins. So, if I look at the standalone numbers even recalibrated for the previous quarter with the effect of Magnet 360, it seems to suggest that that entity would still be having at least at the PBT level fairly large sort of double digit negative margin. Would that be the correct understanding, I just want to know if that is so, the margins improvement in that segment would be one-off the work-in progress as far as the internal improvements go?

Pradip Menon: This is Pradip here. I just wanted to give a perspective. I am sure Rostow will supplement. As you know, we have integrated fully the businesses and therefore it is not strictly comparable set of numbers either QoQ or YoY. The new contracts and new customers would be in Mindtree whereas some of the cost could still be in the old entity. Therefore, it is not a fair assessment. We are completely integrated in terms of going to the market and the business.

Rostow Ravan: Exactly, so like Pradip outlined that for the Magnet 360 business looking at a legal entity view may not make sense because the growth sometimes could have come from customers that are already in Mindtree. So, therefore the contract was in Mindtree name and revenue was in Mindtree name, etc., So, the legal entity view of that business may no longer be relevant. But nonetheless from a principal point of view I accept what you are saying, that part of our business today running at a lower profitability than Mindtree and one of the profit improvement levers is to stabilize and get the margins up in that part of the business as well.

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

Rahul Jain: One question is since we are on track to do close to 18-20% kind of growth for this year and obviously the commentary at the beginning of the year was little bit better than the previous year kind of a growth, so obviously some of the thoughts that we were having at the business of the
year has played much better than possibly what was anticipated at the end point of time, so all
these positive surprises have played out during the year. So, what were these? And then how you
see some of these factors which you think can play out going into next year which can drive the
growth momentum for fiscal ’20?

**Rostow Ravanan:** I think the issue was whether there was any positive or negative surprise. I think the year is panning out as per our plan. So, from our point of view, like I said our focus is on making sure that we understand what is required in the marketplace correctly, make the investments where we can solve the problem for the customer there, but it is a highly dynamic environment. So, obviously continuously keep fine-tuning as we go along, etc., But overall very-very confident of the value proposition we have built. That has led to a strong pipeline and that led to like I said very high win ratios for us there. That is the momentum that we have. Do not want to make any comments on FY’20 at this stage because the whole assessment of customer, budget, priority, etc., is underway at the moment, but the only I would say directional view that we have is that it is under demand rich environment, so we continue to very confident of growth for next year as well.

**Rahul Jain:** Just to add on to that, business value proposition kind of differentiated, how it has helped us in terms of where we can now map us versus peer in terms of versus the large cap versus maybe MNC large player or a core size peer, how it has changed in your opinion versus last 12-months?

**Rostow Ravanan:** Everybody has upped their bar. Mindtree is also continuously refined. We have more so whatever impressive case studies based on the work that we have delivered, etc., plus also continuously talking to customers, bringing in more of a domain flavor into our solutions. So, many things that we have done to keep refining and strengthening our offering. But it is not isolation. I think many of our competitors are also very good companies. So, they are also obviously continuously improving their own portfolio as well. So, I think it is a mode where all of us are continuously focusing on improving wherever we are.

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

**Madhu Babu:** Just on a few cost items, I think the travel cost there has been a substantial increase YoY in 3Q. Any reason for that? Second, salary expenses despite a strong net addition, that has been flat QoQ. So, any update on this?

**Pradip Menon:** I think the YoY comparison is strictly not a fair comparison. We had certain one-off credits which came through in the prior year in that quarter and therefore we have continued to have strong and clear control on the spends including on travel and the trajectory in terms of QoQ remain consistent. The second point just to clarify, it depends on the kind of contract we have with the customers. So, some of the costs are billable to the customers. So, what you will find is that it appears in the cost line but it also will appear as a recovery from the customer. So, strictly not comparable to look at the travel expense as a standalone item.
Rostow Ravanan: On the people cost, I think the biggest change has obviously been the people addition that we had in this quarter. Very high amount of campus additions through the course of this year; I think the campus additions for the full year basis somewhere around 1800, 1900 kind of a range compared to last year was more of 1200, 1300 kind of range. So, big additions from campus perspective is one reason. Second is overall headcount increase as well. So, that is the reason for the cost increase on the people cost side.

Madhu Babu: Last nine months we added almost 2,000 employees. So, when we are adding these campus guys, how long would be the gestation, because currently most of the incremental growth is coming from digital, right, so what is the gestation period, maybe two years when they can be able to handle that kind of service lines, can you give us a view?

Rostow Ravanan: I think our story is very-very different. If you look at one of the biggest differentiators for Mindtree from a talent perspective, this is the investments that we made in our global learning center in Mindtree Kalinga. So, typically people spend anywhere between 60 to 90-days undergoing training and after 90-days they get absorbed into project across all our streams including some of the most advanced technologies like artificial intelligence kind of area, people get picked up very-very quickly, the talent there is unbelievably capable, very passionate, very high learnability, etc., So, we are very-very happy with the quality of the talent that is coming and joining Mindtree plus very-very proud of all the efforts that we have put in terms of bringing them onboard, training them, etc., So, for us the deployment period is in weeks, definitely not in year.

Moderator: Thank you. We will take the next question from the line of Lakshmi Narasimhan from Tatva Capital. Please go ahead.

Lakshmi Narasimhan: So, now Rostow, with digital contributing 50% of your overall revenues, which is the industry that is contributing the highest in terms of digital and which is the industry where your digital contribution is growing faster than either the industry or Mindtree?

Rostow Ravanan: I think value proposition is equally attractive across all four customers, for example, if you look at the two fastest growing practices within Mindtree for Digital, it is Cloud and Analytics. In analytics for example, helping our client understand their customers better, like a front end engagement, Customer 360 kind of an offering is equally valid and equally getting whatever deployed across all the four verticals. The only what shall I say the trend that we are seeing is consumer facing industries like retail, CPG, Travel, etc., typically turning out to be a lot more innovative, they lead some of the digital transformation trends and customers in BFSI typically tend to be a little bit of a follower, they adopted after it becomes more proven, so it is little bit behind on the curve. But otherwise if you look at say Cloud as an example, all the verticals are equally interested there, but if you are seeing faster growth in Retail, CPG, Travel, those kind of verticals.
A follow up question is can we take it that say for example Hi-Tech and Media is 40% of your revenues, then 20% is from Digital from overall revenue perspective, will the split be very similar across industry as well or is one industry skewed like say 70%, 80% of the overall revenues coming from Digital for a particular industry?

There will be marginal differences between verticals; so retail, CPG, Travel kind of vertical will have higher proportion of digital compared to say BFSI and Hi Tech will be somewhere between, because Hi Tech also for example, segments like Media there is a much higher penetration of Digital compared to for example like I said within our portfolio based on the works that we are doing, compared to say Telecommunication, Equipment Manufacturing or Data Communication Equipment companies, Semi-conductor companies, etc., are not doing that much of digital kind of work. So, Hi Tech is a little bit of I would say mixed picture but otherwise verticals like Travel, Retail, CPG, Manufacturing have higher proportion of Digital.

So, do you see Digital growing at the same rate or do you see some sort of slowdown coming through with your Digital offerings?

At this point of time, we do not see anything that gives us any concern on the growth rate of Digital. It is running at approximate like (+30%) growth YoY this year and we are seeing market opening up even bigger, in the sense that customers are going in for much more deeper, much larger transformation in the future. So, digital deal sizes are increasing and so on and so forth. So, nothing that we see at this point of time gives any concern on the growth rates for Digital.

Thank you. We will take the next question from the line of Apurv Prasad from HDFC Securities. Please go ahead.

Rostow, my question is again to probe further on the top account. So, you talked about the addressable segment and the diversified presence within that account. So, how should we really look at it – do you think that the top account continue grow at the recent historical rates or do we see that normalizing and sort of more balanced across the other top accounts?

Do not know, in the sense that we are doing everything as we can to continue grow from all possible avenues, like I said very-very happy, very proud of all the things we have accomplished with our large customers across the board like I said where it is relationships, delivery quality, customer satisfaction, all parameters like I said point to a very healthy growth rate there and we are also pushing as much growth as we can out of the rest of the portfolio. So, not able to give you an answer in terms of relative of the rest of the portfolio to this customer because like I said we are seeing good growth potential across the entire portfolio of the top-10 that we have as of today.

I am coming both from the point of view of de-risking the portfolio from top client concentration over more medium term sort of. Has that really been seen currently?
Rostow Ravanan: Since this question has come up multiple times, I will understand where you are coming from. Like we have explained this over the last few quarters, because this question came continuously, we are doing everything that we can to get growth on a more diversified kind of basis, no doubt at all, not because you are seeing a large account as a concentration risk per se. In our mind obviously it is what it is but we are not worried about it from concentration point of view. But nonetheless like I said, it is our endeavor to try and grow the other customers as well because you want to be meaningful, you want to create an impact, etc., So, we are doing everything that we can to grow the rest of our portfolio. But at this point of time, do not in any way feel the size that we have with our large customer anyway presents a risk.

Apurv Prasad: Also, on the subcontracting charges, how should we see that over again slightly more medium term?

Rostow Ravanan: We use subcontracting as a short-term or a tactical solution. Sometimes the project starts and you do not have all the people readily available on that date, etc., or sometimes some of the projects require certain skills which we do not think has a long-term sort of a need, only like that one particular project or the need is either short or small and short-term or small and therefore you resort to subcontracting there. So, to that extent it is a function of the nature of the demand that come. It is to some extent the balancing figure. Our primary shall I say priority is to try and get as much of its filled through Mindtree minds but anecdotally from time-to-time we use subcontractors as well. So, that is our approach.

Apurv Prasad: So, can this potentially be a margin lever with this rationalizing as it has spiked up in the recent past?

Rostow Ravanan: Not planning on that because like I said that always is a tactical thing. So, the margin improvement thesis is mainly around improving the pyramid, improving utilization, improving pricing, the margin expansion has not done through all of those there, not necessarily explicitly sort of calling out the subcontractor as a lever.

Moderator: Thank you. We will take the next question from the line of Surendra Goel from Citigroup. Please go ahead.

Surendra Goel: Rostow, do you want to comment on the recent press articles around the stake sale and even the press articles talk of the promoters thinking of participating in it, so any clarity would be helpful?

Rostow Ravanan: Thank you also for your wishes, Surendra. Like we have articulated to the media as well, the management team at Mindtree is completely committed, passionate, completely enjoying what we are doing, etc., At this point of time there is no interest for the Mindtree management team to change any of our plans. I think we are in a totally, totally focused on making Mindtree even stronger, making Mindtree a memorable company. As far as the plans of shareholders go, we are not privy to it, it is their priority and their prerogative as to make their own financial decisions. So, we are not following up, etc., with any of our shareholders. So, no comments on
our shareholders plan, but emphatically want to reiterate that there is no change in the approach by the management team at Mindtree.

**Surendra Goel:** Rostow, as a co-promoter, would you be able to comment what the promoters are thinking about the business or?

**Krishnakumar Natarajan:** This is KK, I am here. I will give you a categorical sort of statement. No promoter has any intention to sell. We would rather make the company much stronger potentially sort of increased value of our stakeholders, multiple-fold over the next three, four years and build an admired company rather than getting into any speculation because honestly today our business journalism has become a bit of fiction. So, beyond a certain point, I do not think we want to comment on fiction.

**Rostow Ravanan:** On a lighter vein, journalism today have not just become fiction, they also want to become strategy consulting, they want to become corporate finance consulting and come and tell us what is the best strategy for us to do. But again, like I said, on a most serious note, like you heard from KK, the entire leadership team at Mindtree is completely committed. So, no differences between the leadership team. As far as we are concerned, we are completely, completely focused on growing Mindtree. Shareholders will make their own decisions. We are not privy to the decision and we are not participating in any of the sort of plans that they may have.

**Moderator:** Thank you. As there are no further questions, I now hand the conference over to Ms. Amisha Munvar for closing comments.

**Amisha Munvar:** Thank you. If you have any more questions, please do reach out to us.

**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.