Mindtree Limited
(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Fourth Quarter ended March 31, 2019

April 17, 2019
Moderator: Good day, ladies and gentlemen, and a very warm welcome to the Mindtree Limited Q4 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: A very good evening and warm welcome to all for this conference call to understand and discuss about the Mindtree’s Fourth Quarter and the Year-Ending March 31st 2019. I am Amisha, Head of Investor Relations.

On this call, we have Mindtree senior management team – Krishnakumar Natarajan – our Executive Chairman; Rostow Ravanan – our CEO and Managing Director; Parthasarathy – our Executive Vice Chairman and COO; Pradip Menon – our CFO and other management team.

For today’s call, Rostow and Pradip will begin with a brief overview of our company’s performance, after which we will open the floor for the Q&A.

The webcast is in listen-only mode, but you can post the questions. We will take the webcast questions once we complete the questions through the conference call mode.

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

Rostow Ravanan: Thank you, Amisha. Good evening to all our friends in the investment community. FY’19 was the momentous milestone for Mindtree. We are extremely happy to share with you that we ended the year on a historic note and our revenues crossed a billion dollars for the full year. This results in a growth of 18.3% on a reported dollar terms which means that we have exceeded the industry growth rate for the fifth year in a row. What makes it even more special is that we enter the 20th year of Mindtree since inception, crossed people strength of more than 20,000 Mindtree Minds.

So, very interesting important milestones in the journey of Mindtree.

This quarter saw us delivering stellar growth of $262 million in revenue terms which works out to a 4.2% growth on a sequential QoQ basis. Growth was broad-based across all our verticals as well as geographies. On a constant currency basis, the growth rate was 3.9%.

Some other highlights of FY’19: Our strategy and investments are resonating extremely well with customers, resulting in a growing pipeline and improving win ratios. Digital Service line continues to grow ahead of Mindtree once again. Our clients and analysts recognize our deep
capabilities across both technology and domain in digital. We are being seen as a trusted advisor for our clients transformational technology initiative. We continue to win deals across both run and grow size of our business. All the wins we reported throughout the year ramped up as expected.

We recently completed our annual client satisfaction survey. Our scores continue to be high and we are in the top-20% of our industry. This clearly demonstrates our successful delivery execution and the strong commitment that Mindtree Minds show for delivering successes for our clients which means our clients trust and confidence in Mindtree is continuously improving. Third-party advisories continue to position Mindtree in the Leadership Quadrant in all our focus areas.

As you know, we started declaring our number of Bots in FY’18 when we announced results for the same quarter last year. As of 31st March 2019, we have 576 Bots deployed across Mindtree. This generated curiosity and willingness from clients to see Mindtree as automation partner and internally also we are using Bots in multiple processes.

We continue to invest in hiring and creating facilities close to our clients. During this quarter, we inaugurated our Reimagination Center in San Jose as well as our Sales Force Center of Excellence in Minneapolis. These are steps in that direction.

Other highlights for this quarter: Like I mentioned before, this quarter had very strong momentum and broad-based growth. All our verticals did well in this quarter. Our Hi Tech and Media vertical grew by 4.9%; our BFSI business grew by approximately 5%; Retail CPG and Manufacturing vertical grew by about 4%; our Travel and Hospitality vertical rounded off this quarter with the growth of 2.5%. All of these are sequential growth rates over the previous quarter.

For the full year also, all verticals grew well; our Travel and Hospitality vertical grew by 28.7%; Technology, Media and Hi Tech vertical grew by 24%; our Retail, CPG, Manufacturing vertical grew by 13.5% and BFSI grew by 7.4%.

Our Digital business delivered 3.8% growth over the previous quarter and 32% growth for the full year FY’19 compared to FY’18. We added 15 new clients in Q4. Our $25 million clients continue at four; $10 million clients grew by two, taking the account to 23 and during the year we grew from 17 to 23; $5 million clients also grew by one, taking the account to 45.

We are happy to share with you that amongst the top-10 customers, there are two customers who have been with us from inception of Mindtree. This reflects our expertise and collaborative approach to partner with customers.

Our exemplary people practices resulted in an attrition level of 14.2% annually. At the end of the quarter, we had 20,204 Mindtree Minds reflecting a gross addition of 1072 Minds in this
quarter. During the quarter, we had 482 campus graduates join us in Q4. For the full year, we added 1,623 campus graduates.

We had some very strong multi-year multi-million dollar wins in this quarter. Amongst the wins we had from our existing customers, one was a large global hospitality industry leader. Mindtree extended the digital presence by getting a new win in the Cloud Migration area and for one of our existing clients which is one of the largest global multinationals coatings company, Mindtree was chosen as a Digital Partner to provide Digital Operations and Support Services.

Amongst our new customers, we are excited to share a win from our leading sports retailer. Mindtree was chosen as a digital partner for their eCommerce platform. Mindtree was awarded our largest Salesforce Application Support Contract To-Date in our history by a leading tobacco company for all their applications on Salesforce.

Some points on the outlook for the future: As we shared earlier, Mindtree has established a leadership position in the market on digital which has helped Mindtree grow faster and today more than 50% of our business comes from digital. Our approach of leveraging advanced technology and next-generation paradigms to deliver cognitive experiences at the confluence of edge, intelligence and humanity has differentiated us very strongly in the eyes of our target clients. Effective use of Cloud services along with the power of data and new technologies like Artificial Intelligence has equipped us to help businesses transform themselves through connected operations as well as core transformation. We are now at a point in our digital journey where we believe each of our core offerings have gathered the required critical mass to grow exponentially.

Also, we were amongst the earliest to report digital revenue as a percentage of our total revenue. We want to continue to lead the industry with greater transparency and more insights into our business so that the financial community can track us and understand our business more granularly. Therefore, we are going to start reporting Digital, broken up into three core groups from now onwards. Those Three Core Groups are Mindtree Interactive, which is all the work that we do with the clients on the front end; the Second is Data Science and Engineering Services which is all the work that we do on Analytics and Cloud Services where we help clients migrate to the Cloud and also manage their Cloud Infrastructure. From the next quarter onwards, we will report our digital revenues along these lines so that our investors can have greater visibility of our business.

During this quarter, we signed deals worth 242 million, of which renewals were 158 and new contracts were $84 million. Contracts to be executed within one year was $218 million and greater than one year was $23 million. Digital contracts signed in this quarter was 126 million. Overall TCV signed in FY’19 crossed a billion dollar.

Coming to the demand environment, we continue to see an optimistic demand environment across all our chosen verticals. We have new growth strategies which are partner-led and
offering-led as well as strong pipeline, great delivery track record, all of which give us very high confidence that we will continue to maintain the growth momentum that we have seen. Taking into consideration all the factors we know as of today, we are confident that our growth in FY’20 will be in the low-teens range in constant currency terms. While our normal practices to not give guidance, we have updated our stance and as mentioned that we are going to grow in the low-teens range, because historically, we were able to peg our growth rate to the NASSCOM forecast since NASSCOM has stopped giving growth guidance given the changing nature of our industry, we have now updated our stance as we are wanting to share with you that we are confident of a low teen growth rate in FY’20.

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

**Pradip Menon:**

Thanks, Rostow. Good Evening to all. In Q4, our fee revenue grew by 4.5%; volumes increased by 5.6% and pricing realization declined by 1% due to the number of days; however, overall our pricing has remained stable in the quarter. Our reported EBITDA margin is at 15.2% as compared to 15.9% in Q3. Currency has been adverse at 50 basis points during the quarter. As such on an underlying basis, the margins have been flat QoQ. For the full year, our EBITDA margin is at 15.2% compared to 13.6% in full year ’18, as such we have grown our margins during the year by 160 basis points. For the quarter, we have minimal FOREX gain as compared to FOREX loss of 5.4 million in Q3. The effective tax rate has been 25.6% as compared to 14% in Q3 as in Q3 we had some one-time reversal. PAT margins for the quarter is at 10.8% compared to 10.7% in Q3; full year PAT is at 10.7% compared to 10.4% in full year ’18. Q4 earning per share is at 12.05 as compared to 11.62 in Q3; earning per share for the full year grew by 33.7% to 45.85 as compared to 34.28 in full year ’18. Our DSO is at 70-days at the end of Q4 as compared to 71-days last quarter. For the full year, ’18-19 cash conversions have been strong with EBITDA to operating cash flow at 59.2%. Return on capital employed is at 31%, growth of 5% over the prior year. Our utilization including trainees has improved to 75.3% compared to 74.6% last quarter. Utilization excluding trainees is at 77.1% compared to 76.4% last quarter. Hedges as at 31st March 51.4 million at an average rate of 71.28. This includes hedges of Euro-INR of 0.5 million at 79.07 and GBP-INR hedges 1 million at 92.57. These hedges are on a rolling three months basis and expire in Q1 of the new fiscal.

The Board of Directors at its meeting held on April 17, 2019 have declared an interim dividend of 30% that is Rs.3 per equity share of par value Rs.10 each. The Board of Directors have also recommended a final dividend of 40%, Rs.4 per equity share of face value of Rs.10 each for the financial year ended March 31st 2019 and a special dividend of 200%, Rs.20 per equity share of face value of Rs.10 each to celebrate the twin achievements of exceeding USD 1 billion annual revenue milestone and the 20th anniversary of the company. Both the final dividend as well as the special dividend is subject to the approval of the shareholders at the AGM which is planned in July.

Some points on the financial outlook: For full year ’20, we will have salary revisions in two rounds and that will impact the financials accordingly in the year. The new accounting standard
for lease has been notified w.e.f. 1st April 2019 which prescribes a single lessee accounting model that will bring substantial visibility of office lease commitments and improve the quality of financial disclosure.

Consequent to implementation of the standard, our reported EBITDA is expected to increase by 1.5% due to reclassification and a minor drop in PAT and earnings per share for full year ‘20.

We plan to hire around 2,200 campus graduates in FY’20. With our proven ability to hire locally through effective channels, we have applied for a lesser number of visas. Thus the visa cost impact in Q1 full year ‘20 on profitability will be insignificant. We will continue to hire local workforce. ETR for full year ‘20 would remain in range of 27-28%.

Given all of these developments as well as our visibility at this moment, we are committed on a management to drive operational efficiency and improve our margins between 100 to 120 basis points for the full year ‘20.

That concludes our update and we can now open the floor 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 Aniket Pandey from Prabhudas Lilladher. Please go ahead.

Aniket Pandey: Sir, my question is regarding the dividend announced. Sir, you have announced Rs.4 as final dividend, Rs.20 as special dividend and Rs.3 as interim dividend. So, will this require shareholder approval, and do we need to have an AGM meeting for this, and if yes, then what would be the possible timeline for this sir?

Rostow Ravanan: So the interim dividend has already been approved by the board and the final dividend and the special dividend is subject to shareholders’ approval at the forthcoming AGM. So there is no AGM that is being planned for this will be taken up in the forthcoming AGM, timeline for the AGM is approximately June or July.

Aniket Pandey: My second question is in this quarter, we have seen a slight spike in attrition. So what may be the reasons for that, sir?

Rostow Ravanan: I think it is a seasonal factor. The increase is relatively small, about 14.2%. So we would just be rated as anecdotal factor, no specific trend lines that we can draw from it and it is not a cause for concern at this stage for us.

Aniket Pandey: My last question is regarding the TCV. So TCV has been slightly muted in this quarter as we compare to last three, four quarters, and the Digital TCV also a bit down in this quarter. So sir, going forward do you expect a strong TCV both in digital and your total TCV also?
Rostow Ravan: Yes, we are very confident of our growth, delivered like you said very strong results for this year on the basis of very committed and passionate teams delivering numerous client successes. That leads to clients to see us as a trusted advisor and their anchor digital partner and therefore continue to give us growth in the future as well.

Moderator: Thank you. The next question is from the line of Shyamal Dhruv from PhillipCapital. Please go ahead.

Shyamal Dhruv: My first question is on the margin front. So, in our segmental margin, like BFSI margin has been in the lower to mid-single digit from last many quarters. So, despite strong growth reporting in BFSI, the same is not reflecting on the margin. So what could be the reason for that and when can we see the company average margin for the BFSI segment?

Rostow Ravan: At this point of time, we had like one or two client-specific issues with some of our clients in BFSI. That impacted the margin. The BFSI leadership team is very actively working on it and they hope to start reporting margin improvements very soon.

Shyamal Dhruv: Another is on the dividend part. So we announced the dividend of Rs.20 per share including final and special dividend. So that would be a cash outgo of around Rs.450 crores, and we have cash and current investments of roughly around Rs.900, 950 crores, so that would be almost 50 percentage cash outgo. So, does it mean that going ahead, our strategy would be more on the organic growth front rather than the inorganic irrespective of the outcome of that L&T offer?

Rostow Ravan: I do not want to draw any reference to this to the L&T open offer because to some extent there are two independent issues. Our dividend announcement is in line with two important principles – One is our capital allocation policy which is public which is that we will continue to increase dividend and increase the dividend payout from time-to-time because we wanted to work on a mode where we return surplus cash back to shareholders. So it is in line with the capital allocation philosophy. At this point of time, our primary focus is organic growth. So therefore our sense is that we like to return cash back to shareholders in line with the capital allocation philosophy. Secondly, it is also whereby which we can share some of our successes with shareholders. It is such a momentous year for Mindtree. There are four very important milestones that we celebrated, crossed 20,000 Mindtree Minds, $100 million in PAT, billion dollars at revenue and the 20th year anniversary of Mindtree. So given the very historic and very important occasions that we are celebrating, we wanted to share that with shareholders. So that is the underlying principle behind our dividend decision.

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

Gaurav Rateria: Two questions: Firstly, if you look at the book-to-bill ratio on a trailing 12-months basis, it is one of the lowest in last few quarters. So it will be helpful if you can give some color next year
growth will be a function of pipeline growth which is quite robust or you expect the win ratio to further improve, how do you expect that deal win momentum to pan out in the coming quarters?

**Rostow Ravanan:** Deal win momentum continues to be strong. So like you rightly pointed out, Gaurav, it is a function of both pipeline growing as well as our win ratios growing as well. So I think it is the strategy that we had of being expertise-led and the sort of passionate commitment of our people, it is the strategy plus culture, that is delivering these kinds of strong results and confident that we will be able to execute on the same team even going forward.

**Gaurav Rateria:** Rostow, it will be helpful if you can give some color around the outlook of top clients, are you seeing any pockets of weakness which segments are likely to be strong next year, some qualitative color around that?

**Rostow Ravanan:** Within our overall top-10 clients and also our 11-20 clients, I think we have very good visibility into the growth. Now obviously some clients will grow faster than the other, it is just the nature of the business, but I have spent a lot of time with many of our large clients and quite confident of reasonably broad-based growth across specially our US business. Thematically, I think we are seeing much more traction within our Travel, Hi Tech and Retail, CPG, Manufacturing verticals right now compared to the four segments that we are operating in at the moment.

**Gaurav Rateria:** Any walk on how this lease accounting impact on the margins and what is the corresponding impact on other line item and does your outlook include this particular lease accounting impact in terms of 120 basis points improvement in margins?

**Rostow Ravanan:** I will answer the second part of the question and then Pradip will give you the first part. So our improvement commitment for margins of 100-120 basis points is over and above the change that happens on accounting perspective. So from an operational perspective, we are doing everything that we need to deliver that margin performance, but I will hand it over to Pradip to explain the intricacies of the accounting treatment.

**Pradip Menon:** So the impact on the change in accounting is improved EBITDA of 150 basis points. But as I said in my commentary there will be a minor drop in PAT and earnings per share, but it is not material. So you will see an improvement of 150 basis points and then further on top of that, we will be working as a management team to ensure further improvement of between 100 to 120 basis points.

**Moderator:** Thank you. The next question is from the line of Madhu Babu from Centrum Broking. Please go ahead.

**Madhu Babu:** Sir, just gone through your report which says that L&T’s bid open offer has actually been triggered. So what are your views on that and what are we trying to do to address this?

**Rostow Ravanan:** Thank you, Madhu. Like you pointed out, we did get some feedback from several of our shareholders as well as from small investor association and also the proxy advisors raising some
questions on the validity of L&T’s open offer. Because of the technical legal issue, we have examined the legal aspects of that and currently have asked SEBI to clarify this aspect. So once SEBI gives this clarification, we will have more information at this stage.

**Madhu Babu:** Secondly, we have very good first half last year. So do we expect similar momentum and in that case our guidance looks a bit conservative, can we touch the mid-teens kind of growth for next year?

**Rostow Ravan:** Our guidance is on a low-teens basis. I think the guidance reflects all the factors that we know as of today which is all the things that are happening outside Mindtree from macroeconomic kind of perspective, but also the strong momentum that we have in the recent past and also the new size buckets that we now move into. So it is difficult to maintain the same growth percentage when the pace is different. So all of those factors have gone into the estimate of growth that we have announced for next year.

**Madhu Babu:** But has this L&T’s bid distraction led to any impact in terms of the new deal wins which we could have won in other ways, we are missing on that because of this hostile bid, whether that has also impacted this guidance?

**Rostow Ravan:** Not in a direct sense because the way the management team has responded is that at a board level some of our board members KKR Chairman are driving some of the decisions and the implementation with respect to the unsolicited bid. I and the rest of the management team are primarily focused on delivering our business. So at this point of time, the management team is not distracted by the bid by L&T. We are focused on making sure that all our clients are happy and all our people are engaged.

**Moderator:** Thank you. The next question is from the line of Divya Nagarajan from UBS Securities. Please go ahead.

**Divya Nagarajan:** Just the question on the margins. Could you just run me through your assumptions behind the 100 to 120 basis points of margin expansion that you are planning for fiscal ’20 please? The second, you also alluded to have factored in certain macro related assumptions and stuff. So, what have you assumed the macro impact – and what should we assume as the upside risk if those factors do not play out?

**Rostow Ravan:** I will take the second question, Divya. This is Rostow. And then Pradip will give you the answer to the first question. So the macro factors are, for example, geopolitics, Brexit, many of those kind of factors. But also many things that are positive in the sense that technology becomes so pervasive, clients are spending more on technology in spite of some of the uncertainties, digital has become such a sweet spot for us, it has become so core to our client strategy. So, technology, politics and many things have gone into the estimates from macro environment when you look at it. And then the fact is that our internal to Mindtree, our pipeline, our assessment of where our large clients priorities are, where do we see strength areas, where do we see weakness, etc., So
it is a composite determination that went into the growth forecast for next year. Difficult to call out anything more granular at this stage. I think as the quarters progress, if any of those what shall I say parameters change and therefore our growth visibility changes, we will keep updating you from time-to-time. But at this point of time, I would say we are very proud of all the things that we have accomplished so far. That puts us on a path to continue to deliver low teens growth for next year as well.

Pradip Menon:
This is Pradip. From a margin perspective, we see three broad areas of work – One is purely the operational parameters leveraging the pyramid, etc., You can see that we are also looking at hiring more campus minds and so on and so forth. So we see an operational benefit coming through from that piece of work. The second is in the area of pricing. Given the kind of digital offerings we have, we see an opportunity where particularly we are adding value to customers and where the digital deals become larger and opportunity to get a larger set of margins in those kinds of projects. And the third is purely an area of identifying waste, because there are costs which we incur, which are neither beneficial for the customers nor for the Mindtree Minds, nor for any other stakeholders including investors. So, combination of these three elements is what we are building our plans on.

Divya Nagarajan:
As a follow-up, could you also help us with what the currency assumptions are for your fiscal ’20 margin?

Pradip Menon:
So right now whatever we are calling out as 100 to 120 basis points is excluding any impact of constant currency basis. So we will have to see how the currency elements pan out. That is not what we have factored in this. So there is a like-to-like basis.

Moderator:
Thank you. The next question is from the line of Princy Bhansali from Anand Rathi. Please go ahead.

Princy Bhansali:
In terms of CAPEX, I wanted to ask, for the FY’19 the CAPEX seems high. So what is the reason for that and what do we expect for FY’20 in terms of CAPEX?

Pradip Menon:
In line with our plans of investing onshore, we are clearly seeing a number of requirements of investing in our respective geographies. So we continue to invest, for example, even in the current quarter, we have had our Reimagination Center opened in San Jose as well as Sales Force Center of Expertise in Minneapolis. And these kinds of investments will continue going into the new year as well. Therefore, we continue to see investments in CAPEX as a mechanism to drive a) our growth momentum forward and also mechanism to make sure that we have local work force which can support our onshore work.

Princy Bhansali:
And in terms of subcontracting cost, what should be expected for FY’20 – do we expect further to reduce it or on the same levels?
Pradip Menon: During the year, we have seen a marginal increase in subcontracting cost in terms of percentage revenue. It is not a material number but it is still something that we will obviously closely monitor. We have been operating at around 7% of revenue as our subcontracting cost and we see that maintain those levels, we could see some minor uptick in that based on the current trends but it is something we will wait and watch and obviously we will have to factor that into our pricing with our customers.

Princy Bhansali: In terms of the top-6-to-10- accounts, when should we expect some growth in those accounts?

Rostow Ravanam: Growth momentum I think is reasonably broad-based out of the customers that we have. Currently carrying as our top-10 clients, obviously the growth rate will vary between different clients but across I would say thematic basis our top-10 as well as our top-11-20 customers have a lot of potential and many-many positive interactions with clients in both those buckets. So confident of growth on broad-based across both those buckets.

Princy Bhansali: After that accounting change, will the IFRS reporting remain same, is that correct?

Pradip Menon: It will remain the same, yes, absolutely.

Moderator: Thank you. The next question is from the line of Ruchi Burde from BOB Capital Markets. Please go ahead.

Ruchi Burde: My question is regarding the growth mix that we see. This quarter we have traditional revenue or core revenue growing at bit faster pace than the digital revenue. It seems like a trend aberration. So I was curious if you could give us reasons around to what led to that especially the tight talent market in US had some role to play?

Rostow Ravanam: Thank you so much, Ruchi, for your wishes. I do not think there was anything specific in the growth momentum for this year. Digital like I said continues to do well. It was just anecdotal that maybe we had a few more wins in the traditional kind of offering compared to digital in this quarter, but do not see anything I would say pointing to a change in trend or anything like that at this stage. Both the story that we have about digital across both domain and technology as well as some of our differentiated offerings on the run, both are getting very strong validation from both clients as well as analysts.

Ruchi Burde: Secondly, I wanted to pick your thoughts around package implementation practice that we have. For some time it has been running soft. So could you help us what is going on – is it more secular trend that you see where Mindtree need to churn its offering or is there something client-specific that is driving this soft momentum in the package implementation?

Rostow Ravanam: I think from an overall broader market perspective, there were two parts to our package implementation story – One was around the Oracle suite of technologies and the Second was around the SAP suite of technologies. On the SAP side, our market positioning as well as wins are extremely strong, both the talent that we had originally with the Mindtree as well as some of
the talent that came into the Mindtree fold through the acquisition of Bluefin position us a really well within the ecosystem for SAP, also very strong connects with the SAP partner team and therefore get pulled into a lot of clients conversations through that. So the SAP part of our business is doing very well. It is the Oracle part of the business that is going a little bit slower. Therefore, going forward, our primary strategy will be to focus on SAP.

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

Dipesh Mehta: Two questions: One, if I look geography wise, Europe remain relatively weaker. So if you can provide your perspective, how you want to drive Europe entering into FY’20 and I think the weakness in Europe is for now a couple of years? Second question is about lease accounting change which you refer to. If I understand correctly, you expect EBITDA margin to expand but EBIT margin to decline to that extent. So if you can provide some more details on it, what is likely to play out in terms of that accounting change? And third is about partly addressed earlier, but deal intake if we look at it, there is not material growth. So how one should look deal intake number and then consider it with the potential revenue growth, if you can provide some thought around it?

Rostow Ravanan: I will take the first question, Dipesh. This is Rostow. On Europe, I think it was one or two client-specific issues that in this quarter slightly sort of slower growth there. For the previous nine months I think we got hit a little bit because some of the European currencies moved differently compared to the dollar. But overall I think our growth story in Europe is intact, people addition, front end sales presence, market positioning, all of those are very strong in Europe, many very interesting wins in Europe as well. So overall quite confident of our growth on Europe. Hand it over to Pradip to give you all the background on the accounting change.

Pradip Menon: You are right absolutely that in terms of impact, this will actually have a positive impact on EBITDA and impact which will be neutralized at an EBIT level. Overall at PAT level, we see minor drop as a consequence of this change, that is what it is. So 150 basis points improvement at an EBITDA level and finally at PAT level this is getting neutralized and minor impact maybe 20, 30 basis points at PAT level negative impact.

Dipesh Mehta: Last one is about deal intake and revenue growth, if you can provide some thought around?

Rostow Ravanan: Overall momentum on our business is very very positive. Overall pipeline is growing quite well, life-time high pipelines for Mindtree, deal win ratios continuously increasing. So many things on the deal intake are very positive for us right now and some of our newer go-to-market approaches in terms of sell with partners, offering sales, etc., are also being received very positively by clients. So all of that makes us highly confident on growth momentum for next year.
Dipesh Mehta: Rostow, I was just looking about 1 billion plus deal intake what we have and now last year also we had almost similar kind of intake. Whether it has any implication about moderation in growth, that is what I try to understand?

Rostow Ravananan: Do not sense anything like that at this stage.

Moderator: Thank you. The next question is from the line of Kawaljeet Saluja from Kotak. Please go ahead.

Kawaljeet Saluja: The question that I have is something which the earlier participant also asked. I think you have been talking about a very strong deal pipeline for the last three quarters, but I presume that the strong deal pipeline should translate into TCV of wins as well and TCV of wins have barely moved. So what explains the disconnect?

Rostow Ravananan: It depends, like I said, quarter-to-quarter clients on budgeting cycles, etc., right, like for example, some of our largest clients have July to June kind of a cycle, in which case there is not that much of win in the calendar first quarter. So the variation occasionally from quarter-to-quarter depends on clients purchase cycle and to some extent also in terms of competition and the clients deal decisions, etc., So that is what leads to the difference from time-to-time. Lastly, occasionally, you also get the bump-up because suddenly in one quarter if you win a very large deal, then obviously TCV signing in that particular quarter, get a big boost because of that. So it was what shall I say anecdotal tactical kind of factors like that move the needle from one quarter to another quarter. Overall from a trend point of view, many things like I said in terms of Mindtree positioning, messaging, client traction, all of those things are positive. That is what gives us the confidence on future growth.

Kawaljeet Saluja: But Rostow, the TCV has to move up, right, in the last three, four quarters, it has barely moved up, despite all the positive, the TCV is not moving up. What gives us still the underlying confidence in a subsequent year? Unless and until TCV is not capturing something that you know of and it is basically all of us should know.

Rostow Ravananan: So the only thing that the TCV does not capture is occasionally a portion of our wins is time and material. So therefore, there is no contract value per se that you can ascribe to that contract. Only when there is some kind of a deliverable or fixed what shall I say estimatable billing outputs that is what gets captured in the reported deal contracts there. But overall like I said, there is a rhythm that our business runs at and our pulse of that rhythm is giving us the confidence for growth.

Kawaljeet Saluja: The second question is on profitability. I heard Pradip sir comments on the drivers of profitability improvement. Frankly, I think that is something which we have once again heard in the last two to three quarters. What is different this time around on execution is the comfort for expansion in FY’20?

Pradip Menon: Thanks, Kawaljeet for asking this question. I think what is giving us confidence as we enter the new year is the plans that we have co-created internally as a team, whether it is the delivery
team, the vertical team, I think we are going into the new year with a very-very strong plan which is aligned on all fronts, it is not just the revenue kind of alignment, would also cost alignment and a number of identified areas where we will be working on. Obviously, some of these changes in cost structures, etc., do take a little bit of time and those implementations and plans are in place and we see the execution of that happening during the year which is what is giving us confidence. We are seeing some green suits happening in the prior quarter as well as in this quarter because you must remember that even while we maintain margins this quarter, we have continued to invest behind the business, whether it is investment onshore or opening of new offices, etc., those costs are in the system, but they are getting neutralized by other efficiencies which are getting built in. So, we go into the new year with that confidence which is giving us the sort of view that we will be growing margins in the new fiscal.

Rostow Ravanan: On that, Kawaljeet, even this year if you look at revenue growth for the full year, was approximately 18% but the profit growth is approximately 30%. So you are right, it is the same parameter, it just requires more consistent, continuous effort to deliver those results and at this point of time on margins our feeling is we do not need to do new things, we just need to do whatever we are doing in a more intent and a more rigorous and a more consistent way. So that is what the team is committed to doing.

Kawaljeet Saluja: Final question, there was basically an increase in attrition in the most recent quarter. Anything to link the increase in attrition with the recent chain of events?

Rostow Ravanan: Absolutely none as of now. I think the increase in attrition was relatively small. So do not see any immediate sort of impact because of the unsolicited bid from L&T at this stage. Continuously staying engaged with our people and our people feel that as long as the strategy and culture at Mindtree remain constant, our people’s commitment to Mindtree will also obviously continue at the highest level. Obviously, if anything changes in future, we will come back and update you probably, but do not see anything at this stage.

Kawaljeet Saluja: What has been the kind of questions that have been asked to the leadership team by the people internally up in town or how has the management addressed apprehensions if at all from the recent chain of events on the overall business and future of the company?

Rostow Ravanan: We will probably have a longer conversation on this, Kawaljeet, simply because of very important question, but at a headline level, for the purpose of this call, I think the comments were around whole range of topic, many-many comments came saying that there is so much of goodwill for the current management team, how we all work together and so on and so forth. So I would say like an outpouring of support for the current management team. That was one set of comments that came from our people. Other than that, some of the comments were around, did we anticipate this? Could we have done something differently? Asking for more details on what is the process? What will happen first? What will happen next? What are the steps involved? Lot of questions around clarifying the whole concept to them, etc., And in a small set of cases, there are also questions more specifically around individuals, their roles changes, how this will affect,
etc., So there is a broad spectrum of reaction from the organization. But I would say the overrunning majority was around support for the management team.

**Moderator:** Thank you. The next question is from the line of Rishi Jhunjhunwala from IIFL. Please go ahead.

**Rishi Jhunjhunwala:** A couple of questions: One, on your top client growth, so there has been some normalization in growth, of course, last one year was clearly very high growth but we are seeing some bit of normalization. Just wanted to understand in terms of how things are shaping up there – do you think 20-30% kind of growth rate in your top client is something which is doable in the foreseeable future because this has been one area where there are typically concerns in terms of potential slowdown?

**Rostow Ravanan:** Rishi, a great question. Maybe on a lighter vein, when a client does as well as the kind of performance you have seen from our last quarter, we have a lot of other objectives to describe it. I would not call it crazy, we will call it amazing, we will call it awesome, we will call it exceptional, so we would like to use those kind of objectives other than crazy because it did not come out of serendipity, right, it came because of very strong continuous relationship building, flawless delivery. So a lot of hard work went into convincing very sophisticated user of technology to trust us and keep giving us more work. But on a broader note, I think we have continued to do everything we can to showcase value, showcase Mindtree strength and get as much growth as we can out of our large customer but also broad-based and recipient get those out of our 2 to 10 as well as 11 to 20 clients and some of that is playing out in this quarter where our 11 to 20 clients grew faster than our top-10. So there is a recipient at Mindtree as for account mining. Different quarters, different buckets deliver little bit higher buckets, little bit lower, that is par for the core, but our plan is to get that growth from a broader set of customers. No comments on individual client growth rates because that is very client specific and also in line with our overall philosophy of not wanting to give guidance, no comments on the growth potential for any specific account.

**Rishi Jhunjhunwala:** Secondly, just on the L&T bid, couple of things if you can update us on, one is that till date even now has there been any communication with the L&T management with you all in terms of how this thing can progress? Secondly, any advice that has been formed by the independent committee in terms of the open offer price and the things around that?

**Rostow Ravanan:** So on the second part of your question, the independent directors have a very specific responsibility that the law cast on them which is to analyze the open unsolicited bid and make recommendation to shareholders based on their analysis. They are working on it and they will make the determination and their recommendations in due course. I do not want to do anything or say anything that is anyway presumptuous because that decision will be taken by them at the appropriate time. On the first part of your question, absolutely no touch points with the L&T team at this stage. If anything changes, then we will obviously come back and update you accordingly.
Rishi Jhunjhunwala: Is there a timeline by which the independent committee has to come with their recommendations?

Rostow Ravanan: Based on the legal provisions that they are working under, they need to make their recommendations before the open offer open.

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

Sandeep Shah: Just first question, Rostow, if we look at the order book, is there any linkage to the event which has happened in terms of the L&T offer where clients maybe in uncertain trajectory and maybe differing the project awards, is there any link to read the order book and you believe that maybe getting sorted out or this may continue till the time no clarity is being emerging?

Rostow Ravanan: As far as our clients are concerned, I think their primary buying decision would depend upon the value proposition that Mindtree has provided, the technology solution, the confidence that the particular deal team is able to showcase to the customer, etc. So based on those parameters, we see no immediate impact at this point of time, but obviously like I said if anything changes in the future, we will deal with at this stage, but at this point of time, not seeing any change in customers perceptions of Mindtree due to this.

Sandeep Shah: So there is no single instance of such kind of an interaction with the client which is happening?

Rostow Ravanan: We are continuously in touch with all our clients. Some of them have questions. Many of them are extremely supportive of the Mindtree management team. My only comment is limited to the fact that this news has not changed the way the pipeline has moved or deal closure or order losses or anything like that. So there is continuous conversation. It is obviously very important topic that many clients want to know about. It has just not led to any deceleration of the momentum for us.

Sandeep Shah: And you also alluded a fact that competitive intensity to some extent can also be one of the reasons for the order book. So what do you mean exactly in terms of this – is it leading to more competitive pricing for some of the digital deals which are maybe like three, four years where in terms of many players are now behind those kinds of deal, so what do you exactly mean by competition also impacting order book?

Rostow Ravanan: I am not sure where that impression came. I at least try to remember I do not think we made any comment about. But mainly the point is it is a very what shall I say intense marketplace, technology is a very fragmented marketplace as well, and there are many good companies that are present in our industry. So almost all our business is built on the basis of competitive kind of win. So I think just on the basis of our growth estimates for next year, that was one of the parameters that we have factored in when we gave the growth outlook for next year to be in the low teen kind of a range, but specifically on pricing, that is not playing to any sort of negativity
for us at this stage. Our clients are convinced on the strength that we have and therefore their
decision are based on the value that we are creating for our clients. So we have not seen pricing
getting compromised because of that.

Sandeep Shah: Just last thing on the guidance, if I just look at your fourth quarter annualized number, it comes
to close to 4.7% growth. When you say low teen, it looks like you are looking for compounded
QoQ of 1.5-2%. So is it the seasonality built for H2 or you believe that H1 may also have some
softness because of the order book which we carry?

Rostow Ravanan: At this point of time, like I said, we have only shared the full year growth guidance. Different
years we have had faster growth in the first half, faster growth in the second half. That is how
momentum sometimes changes from time-to-time. We did not make any comments on quarterly
sort of growth projections at this stage.

Sandeep Shah: Just a last clarification, the lease accounting will lead to 115 basis points or 150 basis points?

Pradip Menon: It is 150 improvement.

Moderator: Thank you. The next question is from the line of Abhishek Bhandari from Macquarie. Please go
ahead.

Abhishek Bhandari: My question is more around this L&T’s unsolicited bid. Now yesterday was probably the last
date for any competing open offer to be announced and it has not come through. So should we
assume that your guidance bakes in further prog
00
ess on that whatever you want to call it
unsolicited bid from L&T group?

Rostow Ravanan: So the guidance that we gave factors in everything that we know as of now, factors that are at
industry level, factors due to technology, factors due to clients, pipeline buying decision, etc., as
well as factors internal to Mindtree in terms of talent, pipeline and our readiness and our
investments and infrastructure and everything else, so factors in all the things that we know as
of now.

Abhishek Bhandari: If this further progress on, them trying to increase the shareholding, do you think there will be
certain changes in the operating environment from within which might foresee to change your
guidance sometime during the year?

Rostow Ravanan: No way of commenting on that because like I said it is our strategy, our execution and our culture
that has led to the results that we have delivered. So those are the factors that we have kept in
mind while giving the guidance for the future. It is difficult for us to comment in that sense an
unknown factor like how much shareholding will L&T held up with and therefore what impact
it could have on our business, etc., difficult for us to estimate and forecast.
Abhishek Bhandari: My second question is just a clarification on your EBITDA margin improvement operationally. You are referring to the fourth quarter number or you are talking about year-on-year FY’19 versus FY’20?

Pradip Menon: The reference to the 100 to 120 basis points was on the full year basis. So that is what I talked about the three levers that we will apply.

Moderator: Thank you. We will take the last question from the line of Harit Shah from Reliance Securities. Please go ahead.

Harit Shah: Just wanted to get a sense on the outlook of BFSI vertical. So you have done pretty well in the fourth quarter and for FY’19 you grew by about 7% which was the first well below your overall growth because of certain reasons you have already outlined in the past. So are those maybe the relatively low participation in the digital side of the business in this vertical, is that starting to see some sort of an improvement and because of that can we expect some improvement in FY’20 as far as this vertical is concerned?

Rostow Ramanan: Yes, our BFSI vertical is beginning to do well in the recent past. So we expect that kind of a trajectory to continue. Nonetheless I think the BFSI vertical will be slightly slower than the rest of Mindtree.

Harit Shah: What will be your likely effective tax rate for this year?

Pradip Menon: For 2018-19, we have ended up with about 25% on an average for the quarter and for the full year it is 23%.

Harit Shah: So this is much lower than what you had earlier guided for. I think you had earlier mentioned about 26-27% in the last quarter. So what would be the main reason for the substantially lower tax rate?

Pradip Menon: I think we had explained in the previous quarter that we had as a consequence of one of the mergers with our subsidiary a one-time benefit which gave us ETR impact in that quarter of something like 12%. So that had an impact on the year ETR by 3%. And that is why you have seen as a full year ETR in 2018-19 being lower than our estimates. We had not anticipated what time the merger will come through. The merger came through in Q3. So that is something that we have given effective in last quarter’s results.

Harit Shah: Again, FY’20 you are saying it will be 23%, is that right?

Pradip Menon: For FY’20, the range we are giving is between 27-28%.

Moderator: Thank you. I now hand the conference over to Ms. Amisha Munvar for closing comments.
Amisha Munvar: Thank you, everyone for joining the call on a holiday and look forward to interacting with you in due course of the coming quarter. Have a good evening.

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