Mindtree Limited
(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

First Quarter ended June 30, 2019

July 17, 2019
Good day, ladies and gentlemen. And a very warm welcome to the Mindtree Limited Q1 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by entering ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Ms. Amisha Munvar. Thank you and over to you, ma’am.

Amisha Munvar: Thank you, Ali. A very warm welcome to all of you to discuss the financial results for Mindtree for first quarter ended June 30, 2019. I am Amisha, Head of Investor Relations at Mindtree. On this call, we have Rostow Ravan – CEO and Managing Director of Mindtree; Parthasarathy N.S. – Executive Vice Chairman and COO of Mindtree; Pradip Menon – CFO of Mindtree.

The agenda for the session is as follows: Rostow and Pradip will begin with a brief overview of the company’s performance, after which we will open the floor for the Q&A. The webcast is listen-only mode, but you can post the questions. We will take the webcast question once we complete the questions for the conference call mode. Please note that this call is meant only for analysts and investors.

Before I hand over, let me begin with the safe harbor statement. During 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 Ravan: Thank you, Amisha. Good evening to all our friends in the financial community, who have joined us for today’s call.

Our revenue for quarter one turned out at $264.2 million, which is a QoQ growth of 0.8% and a YoY growth of 9.4% in dollar terms. In constant currency terms, revenue growth was 1.1% QoQ and 10.3% YoY. This quarter saw us with a record high of contract closures where we signed deals worth $324 million.

Some of the highlights of the first quarter are:-amongst our verticals, our Travel & Hospitality vertical grew by 3.6%; Retail, CPG & Manufacturing grew by 1.1%; our Technology & Media Services as well as our banking and financial services were largely flat in this quarter.

Amongst the geographies, our US business grew by about 1%, our European business declined by about 1% in this quarter, mainly driven by cross currency impact. Along with our top customer, our efforts to grow deeper and beyond continue to yield good traction in our client list. Customers in the 11 to 20 buckets grew faster than Mindtree and achieved about 3.6% growth sequentially.

Like I mentioned before, this quarter had the highest ever deal closure of $324 million. We continue to gain market share and gain customer confidence in areas of digital as well as the
traditional services. Our average deal size in digital grew by 13% YoY. At the quarter end, we have 346 active customers, and 12 new clients in quarter one. Our count of $5 million clients grew by one, taking the count to 46. The client composition and other buckets remain the same.

Coming to the people front, trailing 12-month attrition is 15.1% compared to 14.2% last quarter. Seasonally, like you know, attrition goes up currently in the Q1 because of the compensation revision cycles that our business goes through. As a talent and innovation-led organization, our top priorities include attracting the best people and make sure that our workforce is always up-to-date on their skills required to be relevant in this industry.

During this quarter, we inducted 577 campus graduates. Overall, the net addition in this quarter was 731, making our employee strength as 20,935. This quarter also saw people cover more than 200,000 hours of training and 30,000 new courses were introduced on our online learning platform called YORBIT, which continues to be the port of call for Mindtree minds to skill themselves in emerging technology. Our count of BOTs also grew, and now we have 674 BOTs deployed across Mindtree.

As communicated in the last quarter, we have reclassified our digital revenue on three strategic pillars. Over the last 20 years Mindtree has been at the forefront of driving business outcomes for our clients using meaningful technology solutions. In the first decade of this millennium, we helped businesses build their e-business and digitize their enterprise. The next decade saw us partnering with clients to transform their business through the use of cutting edge digital technologies.

In today’s rapidly changing world, businesses need newer ways of working and engaging with clients. It ranges from forming new habits to embracing new technologies and new ways of working and new ways of harnessing emerging technologies like artificial intelligence, etc. These aspects are being built across three main pillars. The first is Mindtree interactive, the second is data sciences and engineering, and the third is cloud services. The focused value proposition in each of these three towers is to deliver tangible and impactful business outcome for our clients and also modernize their core at the same time.

Using this new definition, our interactive services was at 23.9% of revenue, data sciences and engineering was about 11% of revenue and our cloud migration work is about 3.3% of revenue, making the total at approximately 37% of Mindtree. Amongst the other services, our infrastructure management business grew 2.7% in this quarter. Our digital business continues to outperform Mindtree and grew by 3.7% in this quarter. You will see the new definition and the new reporting methodology in the fact sheet that was circulated earlier today.

Coming to some of our deal wins in this quarter, A leading player in the consumer electronics and wireless services, which is a new client for Mindtree, engaged Mindtree to provide scalable end-to-end managed services on their infrastructure and end-user computing environment. This is a multiyear multimillion-dollar win. Similarly, Mindtree was engaged to support a leading
application -- enterprise application implementation for a German automotive manufacturing company. For a leading insurance provider in North America, Mindtree will manage their policy and billing platform implementation. Mindtree will provide network engineering and operations services using Azure as a platform for an existing leader in a global computer software and technology segment.

Mindtree will provide application development services in the areas of data and personalization initiatives for an existing client, who is a leading player in the hospitality industry. We continue to win deals in a competitive and disruptive environment. We have won a few key logos in this quarter in BFSI. For these clients, Mindtree was chosen as a preferred partner for both their digital and their test engineering services.

Coming to the outlook for the rest of this financial year, overall, our pipeline continues to be healthy and very strong with multiple large deals in the pipeline across all verticals. The projects we won earlier in the year or last year have all started to ramp up as per the estimation that we had, which gives us confidence of full year’s growth. Off the contract signings of this quarter, renewals was $248 million and new contracts were $76 million. Seen another way, contracts executed within one year was $271 million and greater than one year was $53 million.

We are realigning our digital offerings into three towers of interactive, data and cloud, will help us focus on continuous connection, contractual experiences and frictionless adoption to transform core business outcomes. Our value proposition becomes infinitely stronger because of this updation. Our core business strength continues to be intact. With the removal of the uncertainty today with respect to the takeover of Mindtree by L&T, we believe some of the concerns and doubts in the minds of customers will be addressed over the next few weeks, and therefore, the business momentum will continue and probably accelerate because those deals that were deferred due to the takeover lead uncertainty should hopefully get addressed now. Additionally, very high pipeline, very high-growth momentum due to high deal closure in Q1 and a strategy of focused offerings in account mining will help us win greater market share.

Keeping all these factors in mind, we are confident of delivering above-industry growth for FY20.

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

**Pradip Menon:**

Thanks, Rostow. Good evening, all. In Q1, our fee revenue grew by 0.8%. Volumes increased by 2.6%, and pricing realization declined by 1.8%, primarily due to increase in billing days. Overall, we achieved this maintaining our contractual pricing in the market.

EBITDA margins on constant currency basis for Q1, excluding one-offs, was at 13%. The drop of 220 basis points in EBITDA margins versus prior quarter was primarily on account of planned compensation revisions of 190 basis points as well as visa cost of 30 basis points. There was a one-off 260 basis points impact on margins on account of a one-time special reward to all employees to mark the 20th anniversary of the company. There were foreign exchange headwinds of 40 basis
points versus prior quarter on account of appreciation of the Indian rupee. The effective tax rate, ETR, for the quarter is at 26.6% compared to 25.6% in Q4. If you recollect in Q4, we had some one-off credit coming through the mergers of one of our subsidiaries.

PAT margin for the quarter is at 5.1%, and EPS is at Rs. 5.6. Our DSO improved by four days from previous quarter and is at 66 days, this is primarily due to strong collections during the quarter. Our EBITDA to operating cash flow conversion is at 103.7%, EBITDA to free cash flow is at 73.8%. Our utilization remained strong at 77.9%, excluding trainees, compared to 77.1% in the prior quarter.

Hedges as on 30th June is $55.8 million at an average rate of Rs. 70.58. This includes hedges of INR-EUR of EUR 1 million at Rs. 79.55 and INR-GBP hedges of GBP 0.5 million at Rs. 92.92. These hedges are on a rolling three months basis and expire in Q2. Final dividend of Rs. 4 and special dividend of Rs. 20 have been approved at the AGM and will be paid out before 31st July, 2019.

Looking ahead in terms of margins, driving profitability continues to be our priority. Q1 profitability has been in line with our expectations. We expect to improve our operational margins in Q2 versus Q1 after reckoning compensation increases planned in Q2. As revenue growth momentum accelerates for rest of the year, and our continued efforts to drive operational efficiency continues, we aspire to improve profitability marginally over full year 2019, excluding currency and one-offs. That concludes my update.

I will now pass this back to the coordinator for opening up for questions.

Rostow Ravanran: Before we open for questions, one last update from my side, Ali. Our Chairman, Krishnakumar Natarajan, stepped in a few minutes late, but has entered the room. So, management team at Mindtree now includes our Chairman – K.K. as well.

Ali, with that, you can open up for Q&A.

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

Mukul Garg: Rostow, I have two questions. The first question obviously on the upcoming leadership transition. If you can help us understand exactly how things are going to be managed internally as you and K.K. and Partha move forward? Is there any clarity internally on who is going to take over, or how the operations are going to be managed, it would be very useful?

And the second question was on the margin profile. Again, if you can probably provide some guidance in terms of how you are going to recover the margins which have been lost because of the QoQ wage hikes? How the -- over next few quarters, where do you see margins stabilizing at?
Rostow Ravanan: Thank you, Mukul. Let me start with the first question, maybe I can give you some points on the second part of your question, and I will ask my colleague, Pradip, to add a few more comments on the margin point.

As far as the leadership transition is concerned, like I am sure all of you would know, a couple of weeks ago K.K., Partha and I, along with another colleague of ours, Kamran, have decided to resign from Mindtree. The resignations were accepted by Mindtree. The transition plans are being worked out by our Board right now. So, the Board meeting, we had to take a pause from the Board meeting and come back and do this call. So, I guess maybe in the next day or two, our Board will give us some advice in terms of how they would like the transition to be. As soon as that picture is clear, we will come back and share that with you.

Pending that formal update that we can make to you as soon as the details are clear, pending that the only thing we can share with you as of now is we are trying as hard as we can to keep it as BAU for the time being. And like always, you have the complete assurance from the current management team at Mindtree that we at all points of time behave absolutely responsibly, and keeping all our stakeholder interests in mind. So, we will conduct the business in that mode, and hopefully in a day or two our Board will give us some clarity on the future plans, including new leadership appointments, etc. So, that’s more the Board’s prerogative than our prerogative at the moment.

With that, let me move to your question on margins. Like you, I am sure have seen our industry from time to time, the quarters when you start with your wage increases, obviously the profitability takes a hit. Even last year or the previous year, for example, Q1 takes a hit and then thereafter the business makes up. The margins recover for multiple reasons and I guess the chief one amongst that would obviously be growth. So, over the next few quarters, like I mentioned, in terms of deal momentum and the pipeline and so on and so forth, removal of this L&T-related uncertainty, all of those, like I mentioned in my comments, present a little bit more comforting picture on revenue growth accelerating for the rest of the year compared to where we are in this quarter. That itself will obviously lead to some relief on margins. In addition, the finance team working with the business units also have a very detailed sort of cost management proposal, cost management options in place as well. And how the year shapes up, those factors will also be brought into place, which are the factors that we are going to use to drive margins for the rest of the year.

Again, I am just highlighting the summary, and if you need, Pradip can give you more details. Beginning of the year we mentioned that we will improve margins over last year. I obviously will give you the actual details in a little bit, but that approach hasn’t changed. Even now we are still confident that we will be able to grow margins in FY20 compared to FY19, barring some of the one-offs that Pradip outlined. With that, I will hand over to Pradip. Is there anything else that you would like to add?

Pradip Menon: I think Rostow has covered, I think, broadly all the points. But I just want to reiterate some of the actions that we continue to take, certain fundamental efficiency, operational parameters that we
continue to drive, for example. Pyramid focusing on making sure that the kind of offerings that we do, gets appropriately priced with our customers. So, there are actions happening on pricing, there are actions happening on operational parameters like Pyramid. And of course, ensuring that we continue to focus on costs which neither add value to the customer nor to our employees, and drive those costs out of the system. So, I think these three-pronged actions continue, and we are trying to make sure from the business and to the business we look as much ahead as possible. So, those interventions can happen sooner rather than later. So, as Rostow mentioned with the revenue, the TCV signing going up to a record number, I think our confidence level in terms of ability to improve margins in the rest of the year is higher, of course sans currency and one-offs.

Mukul Garg: Rostow, just if I can continue forward on the first question. Over last, I think, one week we have seen a few other senior people resigning to go elsewhere. What steps do you think are being taken internally to address this or to stop the attrition at senior management level? And do you think this one-off -- 20-year completion one-off reward to the employees is kind of a step in that direction to keep them basically assured that business is going as usual?

Rostow Ravanan: Mukul, the special incentive to complete our $1 billion- and 20-years’ milestone was just meant to celebrate that very important, very momentous milestone in the history of Mindtree. There was no expectation and that was not designed in any way to address any concerns from an attrition perspective whatsoever.

On the second part of your question, you are right, so there are being a few other members at different levels of the organization who also evaluated their career and planning some other steps outside Mindtree. People like Gaurav, who worked very closely with me, I wish him all the best. Currently at the moment, like I said, the whole managing the transition is something that’s being driven by the Board. Our Board is very, very conscious of all the implications and what needs to be done. Just give us a little bit more time, maybe another two or three days to make sure that everything is stitched together so that we can communicate comprehensively.

Krishnakumar Natarajan: And just to add one more observation, Mukul, just to clarify, even the one or two names which have been mentioned in the press as people who are leaving now are not leaving for any competition, which means it’s not that, I think, they want to exit out of Mindtree and work in a different company. Like Rostow mentioned, Gaurav has always been planning a start-up, which is in different area; another gentleman, Ajay, who was mentioned who is the Deputy Chair was immigrating to a different country. So, I think it is nothing in terms of them seeing the current environment here being unstable and looking at concrete companies for making a career.

Moderator: Thank you. The next question is from the line of Devanshu Bansal from Emkay Global. Please go ahead

Manik Taneja: This is Manik Taneja here from Emkay. So, my question essentially is to how should we be reading the decline in the revenue productivity, given the fact that volume performance has been relatively strong, but the reported revenue growth has been more subdued? That’s question number one.
The second question was around the financial services vertical, while you have called that there have been some new customer additions in that vertical, but if you could give us some sense as to what you are seeing within your existing client base there?

Rostow Ravan: The revenue productivity was to some extent, I guess, a little bit of a one-off for two reasons. This quarter saw us slightly lower on the IT kind of revenues, which boost our revenue productivity for this quarter. That didn’t come, that played a small part. Another small part was the higher billing days in this quarter on a fixed-price kind of project, and obviously that gets affected there. So, one or two of those relatively sort of, I would say, minor reasons why the revenue per person or the rate realization got impacted in this quarter. We didn’t see anything fundamentally negative other than the broad trend in terms of some customers where there are either signings or delays, etc., that led to slower revenue growth in this quarter there.

As far as the BFSI business is concerned, it’s also one of those areas where some of our customers finally, like I said, closed the contracts a little bit later or gave us the contracts a little bit smaller than what was the original scope, etc. The team is currently also very conscious about the low profitability in our BFSI vertical. So, we are also consciously looking at what needs to be done to make sure that the growth that we are getting is more profitable, etc. So, that’s also affecting the outlook for that BFSI vertical.

Lastly, a trend that we saw in the past, and I have shared with you in the past as well. For some reason our digital story, which is our absolute sweet spot for Mindtree, resonates a little bit better with our clients in the travel, retail, CPG kind of verticals. The off-take of digital in our BFSI vertical is relatively smaller. So, our sweet spot in a sense is not getting picked up by that vertical because client priorities in that vertical somehow tend to be in different directions right now. Those are the outlook that we have for that vertical.

At a macro level, obviously our verticals went through small ups and downs globally, even some of our peer group commentary indicates that there are some ups and downs in that vertical there. From our point of view, we are continuing to grow. There is momentum. We are winning deals. It just happens to be more in the traditional services and not in digital. And the team is extremely, extremely focused on doing things to bring up the profitability. And therefore, potentially we could also see from a quarter-to-quarter point of view, maybe that revenue momentum may not be even, but the team is focused on improving profitability.

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

Madhu Babu: Sir, in terms of recovery from 2Q, so even to get to kind of 10% growth we require 3% CQGR over the remaining three quarters. So, are we confident that this is achievable, that the deal pipeline is strong? And second, the margin expansion we are talking from next quarter, is it on the base of 13% EBITDA margin?
Rostow Ravanan: I will answer the first question and then Pradip can answer the second question. You are right, Madhu, everything that we know as of today gives us a high degree of confidence that revenue growth momentum will pick up definitely from Q2 onwards, partly because all the deal wins and the momentum that I spoke about, and partly because the uncertainty surrounding the whole L&T question is now put to rest, irrespective of which way it has landed, at least that issue is also working right now. So, our expectation is that customers will now move forward in whatever direction. Both of those present a confident picture that we can see for revenue growth for the rest of this financial year. And if anything happens to change our perspective on that, in due course, we will communicate to you either mid-quarter or end of the quarter.

Pradip Menon: Yes. Thanks, Rostow. I think on the margin point, I just want to reiterate what I said in my opening statement, which is that we will grow margins in Q2 versus Q1, yes, on the base of 13%. And this is also after reckoning certain compensation increases which are planned in Q2, because we have had some of the senior Mindtree minds who will get their compensation increases effective July, and that is also reckoned in this margin expansion that I have called out.

Moderator: Thank you. The next question is from the line of Rishit Parikh from Nomura Financial. Please go ahead. As there is no response, we will move to the next question from the line of Dipesh Mehta from SBICAP Securities. Please go ahead.

Dipesh Mehta: Just two questions. First is about the margin outlook…

Moderator: Dipesh, you are not audible.

Dipesh Mehta: Is it better now?

Moderator: Yes. Thank you.

Dipesh Mehta: So, margin earlier I think we indicated at the beginning of around 100-plus basis point margin expansion this year, and this is outside of the accounting change-related benefit, which is likely to now have played out. So, if you can help us understand ex-accounting outlook or maybe if you can provide whatever perspective you can provide about the change now we are seeing marginally better than last year. So, if you can provide some perspective there?

Second question is about the weakness which we are seeing in Europe market. So, if you can provide some perspective, what is happening there? And how you expect that market to play out for us in medium term? Thank you.

Rostow Ravanan: I will take the question on Europe and then hand it over to Pradip for the three or four sub-bullets that you had on the margin question, Dipesh. On Europe, I think our own sort of client base is reacting with some amount of softness. And again, like I said, obviously the continuous overhang of the takeover definitely would have had a portion of it. But even outside of that, we are seeing some amount of softness in Europe and that’s persisted I think for maybe two or three quarters now. Our teams are in play, continue to do a lot of marketing-related activities, in touch with a lot
of our clients right now. Hopefully, some of those factors will get consensus, worries will get addressed and hopefully that we will come back into growth rates there. We are very, very actively monitoring it and doing everything we need to do at the moment.

Pradip Menon: Yes. So, in terms of margins, what we are talking about is on a full year basis, the margins will be marginally better over last year. So, this takes into account all the pluses and minuses which are there. As I said, we will have to exclude the currencies and the one-offs, but barring that all other factors are considered in this projection. So, versus last year, we expect to improve margins barring the currency and the one-offs. All the other elements are sort of reckoned in this calculation.

And I see also a separate question which is, on the webcast there is another question on hi-tech margins. So, Hi-Tech margins, there are really two factors which are influencing this. One is, of course, the growth in the hi-tech segment has been lower than the expectations, and therefore there is a decline coming through the fact that the overall various factors, which I mentioned on margin, the one-offs, the compensation increase, all of those affect Hi-Tech as well. And on top of that, the revenue overall has been virtually flat. So, a combination of these two is really impacting the margin movement within last quarter and this quarter.

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

Shyamal Dhruve: Sir, I have two questions, one is on our client-wise. So, during the last quarter when there was some uncertainty on the L&T stake buy, we had witnessed some of our clients to hold back their budgets until some clarity emerges. But now with the L&T coming in, but still there are no like clear road map of when, like about the management team. So, are we still seeing any spend, like holdback from any of our clients, particularly our large client?

And second sir on the margin. So, in your opening remarks you have given the margin breakup of 220 basis point from compensation revision and 160 one-time special dividends, plus currency. So, that adds up to around 420 basis points, but like the actual EBITDA margin decline is of 520. So, can you just give like what contributed for the remaining 100 basis point decline?

Rostow Ravan: Quick reaction, Shyamal. I think the math was off because the one-time special reward for our people contributed to 260 basis point impact. So, that was the difference between your math there, so that explains the whole gap. As far as this prior customer sentiment is concerned, I think some of the uncertainties around the takeover has literally, like I said, just got over a few hours ago because the shareholders’ meeting happened yesterday, the Board meeting, like I said, in some sense is still continuing, because some of the transition-related things are there, the Board is still deliberating on at the moment, etc. Some of that is still continuing.

Our feeling at the moment is that clients realize that Mindtree is more than any one individual. There is obviously a lot of goodwill that we have accumulated over time. So, clients, to some extent, clearly are in a wait-and-watch mode. But the moment in the next two or three days a set
of communication can be made that addresses all their concerns, I am sure their perspective will change. But you have to give us a few more days to finish all our deliberations, come back and make all the requisite announcements and then give you feedback as to how the clients took that right now. Because like I said, we are at the tail end of this process, so it is difficult to make any comment right now.

Shyamal Dhruve: So, does that mean that there would be some delay from the client side, but we don’t expect to lose any of the clients, mainly the top clients, that is correct?

Rostow Ravanan: Yes. That is our current understanding, yes.

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

Abhishek Bhandari: I had two questions, Rostow. So, if I look at your current shareholding, you and your friends still have 13% stake in the company. So, what are your thoughts around holding that stake going forward?

Rostow Ravanan: I haven’t made any plans on that, to be honest, at this point of time, Abhishek. Clearly, obviously speaking in my behalf as a shareholder and not as a management team member of Mindtree, on behalf as a shareholder a lot will obviously depend on the valuation. And clearly from a stock market perspective, some of the events over the last few days have led to a stock price correction. So, we are very keenly watching that right now. But no plans have been made on our holdings at this stage. And at least, because I am speaking in my shareholder capacity, my colleagues, the founders of Mindtree, are all in the same mindset at the moment. So, the way we are thinking about it is just complete all our professional responsibilities in the most responsible way and complete the transition. And then each of us will look at our own plans from a financial analysis point of view and then make decisions on our shareholding at that stage. So, we are just, like I said, at the tail end of the professional responsibility transition. So, we would like to see that through before we make any plans on the financial transition.

Abhishek Bhandari: Sure. So, that’s helpful. My second question is that as a part of your breakup with the company going forward, are there any clauses between you and L&T that there wouldn’t be any poaching of the customers from some of the senior management who is going -- who may not be joining the competition but might have their own plans, as you mentioned at the start of the call? Are there any some kind of clauses which you have with L&T or is it like completely open?

Rostow Ravanan: No comments on that at the moment, Abhishek. Like I said, the transition signing, methodology, etc., like I said, are literally being debated as we speak right now. So, we will have to wait to see how all of that turns up there. All of us are governed by Mindtree employment contracts and that obviously comes with all the responsible protection that Mindtree would need from all its leadership members. But specifically how some of this will actually get panned out, we will have
to wait for, I would say, very, very short time, a few days from now for all of that to be clear and then communicate for our internal stakeholders as well as our external stakeholders.

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

Sandeep Shah: Just wanted to understand the lease accounting impact in this quarter, both at EBITDA and EBIT level? And how it will look like for the full year of FY 2020?

Pradip Menon: Yes, So, thanks, Sandeep. I think the outcomes are very similar to what we talked about. We have said that at a PAT, EPS level the impact for us is very marginal, it’s about maybe we will see a full year impact of 20, 30 basis points. I mean that’s the kind of number that we are seeing this quarter as well.

Sandeep Shah: Okay. So, even at EBITDA and EBIT level same numbers which you have discussed last quarter continues to remain true?

Pradip Menon: Yes, absolutely.

Sandeep Shah: Okay. And we can assume the same for Q1 margin as well, right?

Pradip Menon: Yes.

Sandeep Shah: Okay. And just, Rostow, I wanted to clarify as what has been written as the resignation of you and the other Directors would be effective 17th of July, but the employment contract may continue as per the employment contract. So, is it fair to say that once you -- the resignation from the Board may be effective 17 July, but continuation as an employee may be beyond that, just to have a smooth transition when the new senior management joins?

Rostow Ravan: That is correct. So, our tenure as a Board member ends by end of day today. Our role as a management team member will continue until the time the transition is implemented. And like I said, that’s the piece that’s been deliberated with the Board at the moment. So, whatever responsibility the Board wants us to take up and assign to us in the transition period, we will see that through based on the negotiations or based on the advice that we are getting from the Board at the moment.

Sandeep Shah: Okay. And just last clarification, the 2Q margin increase we are also talking on a constant currency QoQ, right?

Pradip Menon: Yes, that’s correct.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from PhillipCapital. Please go ahead.
Vibhor Singhal: So, just a small bookkeeping question in terms of the one-time special reward that we awarded to the employees and the salary hike. So, the one-time special reward that we gave, which accounted for around 260 basis points, was it basically across the spectrum or was it limited to the senior management or kind of governed by the number of years of experience in the company that the employee had spent?

And secondly, what is the kind of -- what is the average onsite and offshore salary hike that we have provided to the team in this quarter?

Rostow Ravan: I will take the first part of your question and I will ask Pradip to answer the second part. The one-time special incentive to all Mindtree minds covers everybody, 100% of Mindtree minds who were on the role as of 31st July will all receive this amount. It is graded by tenure. So, older employees get a little bit more and the newer employees get a little bit less, meaning tenure in Mindtree, not the age of the employee or seniority by grade. It is by tenure in Mindtree the amount will vary. But it covers 100% of our people who are on the roles as of 31st July.

Coming to your second question, the average increase is 7% for offshore and 3% onshore.

Vibhor Singhal: Sure. And Pradip, just as a follow-up, what could be the basis point impact of the salary hike that is remaining and that should then come in the second quarter?

Pradip Menon: Yes. That range could be in the region of about 1% for the next quarter.

Vibhor Singhal: For the next quarter?

Pradip Menon: Yes. Just to clarify, the improvement in margins that we are talking about are after reckoning that 1%.

Vibhor Singhal: After reckoning that 1%. Of course, that’s clear.

Moderator: Thank you. The next question is from the line of Ruchi Burde from Bank of Baroda. Please go ahead

Ruchi Burde: First of all, my best wishes to K.K. and Rostow. You guys are leaving behind an admirable legacy. In a few days, there will be a new executive team taking charge, so what would be your word of advice to the new incoming leaders? And what challenges, in your view, the new leaders should be prepared to face?

Rostow Ravan: Very interesting question, Ruchi. We haven’t obviously applied our mind to it, only because we don’t know who the individual is. Because as soon as, like I said, that becomes clearer there, and people come with different skills and different background and different experiences, etc., so they can possibly have a more informed discussion once we know the first sort of piece of the puzzle falling into place there. Broadly what we will share with that individual is all the success stories of Mindtree, what has made Mindtree special, why do customers’ like Mindtree so much, how
some of our investments have been planned out and so on and so forth. We will be very transparently explaining all the sort of strength of Mindtree. And thereafter get into how do we look at some of the challenges, etc. there. So, we will address it in due course.

**Krishnakumar Natarajan:** And to just add on one more point, I think, to the new team clearly the state of the business is extremely strong, in a way it’s got reflected in the record, contract bookings that happen. So, it’s important over the next two, three quarters to execute flawlessly, which necessarily means ensuring that whatever, if there are any concerns in the delivery teams or customer-facing teams to solve that, so that the foundation on which the business is built, we can really deliver huge value in the next three quarters.

**Moderator:** Thank you. The next question is from the line of Parth Thakkar from JM Financial. Please go ahead.

**Parth Thakkar:** Thanks for the opportunity to ask the questions. My question is for Pradip. Pradip, you mentioned that you have set an EBITDA margin expansion in fiscal 2020. Is that expansion outside the IndAS statement which we see, which is approximately 150 bps?

**Pradip Menon:** Are you talking about quarter-on-quarter?

**Parth Thakkar:** No, year-on-year.

**Pradip Menon:** Year-on-year is not, what we are saying is that is not over and above the IndAS impact. It already factors in the IndAS impact in this.

**Parth Thakkar:** It factors IndAS. So, when you say YoY margin expansion, it takes into account IndAS impact as well, right?

**Pradip Menon:** Yes.

**Parth Thakkar:** It just excludes the currency and the one-offs, which you have given?

**Pradip Menon:** Right. Correct.

**Parth Thakkar:** Okay. That helps. Thank you so much.

**Amisha Munvar:** Ali, K.K. would like to address the analysts.

**Krishnakumar Natarajan:** If there are no other questions, I just wanted to thank all of you. As you are aware, this will be the last Mindtree analyst call for Rostow, Partha and me while representing Mindtree. Before we leave, I wanted to share a few thoughts. All of us have enjoyed coming back on this call every quarter to share our story and the aspirations of Mindtree. You have without hesitation held up a mirror to us each time. I hate to admit it, but we have immensely gained from the insights and what you have really given as a feedback to us.
Firstly, you have given us an outside view, and that has been very invaluable to all the three of us. Secondly, your questions have forced us to go back and see how we could do better on a range of issues, it could be governance, it could be transparency, it’s strategy, and a host of business vectors. In a way, this has really demonstrated by saying that Mindtree was the first to start calling out digital revenues, and then a lot of other players in the market started following it. We have been the first to start sharing the number of BOTs which we use in the business. And keeping in line with that, today we have started this practice of giving a breakup of digital revenues so that we could start ensuring that the market becomes more transparent to the analyst community of what really the business looks like.

So, the root cause of this is your challenging questions have undoubtedly made Mindtree a better company, and personally made all the three of us better professionals. I can’t imagine I am saying this, but we will miss all the wonderful conversations we have had with you. So, on behalf of all the three of us, our sincere and heartfelt gratitude for all your support and your very positive pushbacks. Mindtree has been a better company because of this.

So, thank you so much and wish all of you a wonderful career and an excellent period of ensuring that you continue to push Mindtree on to better and better heights. Thank you.

**Amisha Munvar:** Thank you, K.K. Thank you, Ali, and everybody, who has joined the call. We look forward to interact with you during the course of the quarters. Have a good evening to all of you.

**Moderator:** Thank you very much. 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.