



Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

First Quarter ended June 30, 2016

July 18, 2016

Welcome to possible

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Mindtree Limited Q1FY17 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sushanth Pai. Thank you and over to you, sir.

Sushanth Pai: Thanks, Karuna. Welcome to the conference call to discuss the Financial Results for Mindtree for the first quarter ended June 30, 2016.

I am Sushanth from the Investor Relations Team in Bangalore. On this call, we have with us Senior Management Team:

Krishnakumar Natarajan – Executive Chairman

Rostow Ramanan – CEO & Managing Director

Parthasarathy NS – Executive Director and COO

Jagannathan Chakravarthi – CFO

Ramesh Gopalakrishnan – Global Head of Delivery and Operations.

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

Since we have introduced an audio webcast, some of you may have joined the webcast; the webcast is in listen-only mode but you can post questions. We will take the webcast questions once you 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 before this call.

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

Now, pass it on to Rostow.

Rostow Ramanan: Thank you, Sushanth. Good Evening to all the members of the investment community on this call. Revenue for Q1 was \$199 million, which is a Q-o-Q growth of 2% and Y-o-Y growth of 29% in dollar terms. In constant currency terms, we grew 1.1%. Please note that all the numbers we have reported in this quarter are aligned to the requirements of the new accounting standards called Ind AS and therefore previous years and previous quarter numbers are also restated to be in line with current quarter’s reporting framework.

Jagan – our CFO, will give you a more detail overview of the changes were necessitated because of the changes in accounting framework.

Other Highlights for the Quarter are as follows:

Amongst our verticals – our Financial Services, Banking and Insurance vertical grew 4%, Retail, CPG and Manufacturing grew 3.1%, Technology, Media and Services grew by 4.2%

compared to the previous quarter. Travel and Hospitality face some headwinds due to delayed project ramp ups in a couple of clients and therefore declined by 7.1%.

Amongst the Service Lines – our Digital business grew 5.2%, continuing a strong performance over the last few quarters and had a 47.8% growth year-over-year. Amongst the Other Service Lines, our Infrastructure Management business 7.5% and Package Implementation grew by 3.6%. We have 343 active customers as at quarter end and we have added one more client in the \$10 million category, taking the total in that \$10 million category to 16.

On the people front – trailing 12-months attrition was 16.5% compared to 15.7% in the previous quarter. Seasonally, attrition goes up during the performance management and compensation revision cycles, while this is not an immediate source for concern, we are monitoring this closely. At the quarter end, we had 16,110 Mindtree Minds which is a gross addition of 210 people in this quarter. On a net basis, we had a negative headcount addition of 513. As explained earlier, we had embarked on a journey to improve operating efficiencies and have made good progress on this front which has led to improvement in utilization. Also, campus additions are planned from Q2 onwards and we did not have any campus additions in the first quarter. We expect to have 450 campus graduates joining us in Q2. This quarter saw some strong wins both within existing customers as well as new customers, both for our Traditional Service lines as well as Digital.

Overall Q1 was soft due to the following reasons:

Delay in project ramp ups from some of our wins, competition in traditional service lines leading to price pressure during the renewal cycle; however, we are using these opportunities to build value through disruptive models such as everything as a service bundled managed services and Digital.

In our Bluefin business which we acquired in July last year, we have a decline on this quarter compared to the previous quarter, mainly due to the uncertainties in the UK region. However, the Magnet 360 business that we acquired in January this year which is focused on Salesforce had a very strong growth. Some of these challenges are likely to continue into Q2 as well because the global environment poses some short-term uncertainties along with currency fluctuations.

During the quarter, we have signed orders worth \$220 million, of which renewals were \$184 million and new orders were \$36 million. Out of this, orders which were less than 1-year are \$209 million and the balance \$11 million is for greater than 1-year. Contract wins in Digital continue to be strong with \$93 million of wins in Digital in this quarter. We remain confident that our investments are in the right track to accelerate growth beyond Q2 as some of our newer wins will ramp up over the next two or three quarters.

With that I hand over to Jagan to explain some other Financial Highlights.

Jagannathan C Narasimhan: Thank you, Rostow. Good Evening to all. Before I start my update, I would like to point out that we have moved to Ind AS which Rostow highlighter earlier from 1st April of the current financial year. For the benefit of overseas investors, the Ind AS accounting standards are largely similar to IFRS in line with the requirements for the first time adoption of the new

accounting standard we have reinstated the financials in Q1 FY '16 and Q4 FY '16 for the comparative purposes.

The main differences affecting our Financials are as follows:

On revenues, cash discount expensed under IGAAP is now reduced from revenue, resulting in revenues being lower by 0.4%. At EBITDA level, cost impact for the quarter ended June 30, 2016 is insignificant. At PAT level, the main element is business combination related expenses such as amortization of intangibles which is about 130 bps.

In Q1, our revenue grew by 1.9%, volume grew by 2.4%, and pricing realization decreased by 0.5%. Q1 EBITDA margins are at 14.7% as compared to 16.7% last quarter. There was an impact of 1% due to visa cost, which is seasonal for this quarter in the year. 0.8% is due to operational parameters such as onsite shift in revenue and also the profitability of our acquired entity Bluefin this quarter. The net currency impact of 20 bps also impacted our EBITDA this quarter. There has been 1.5% margin impact mainly due to Bluefin where revenue declined and consequently Bluefin business reported a loss for the quarter. Therefore, Mindtree margins excluding acquisition is at 16.2%. Forex gain in Q1 is about \$1.4 million as compared to gain of \$464K last quarter. The effective tax rate is 24.3% as compared to 25% last quarter. PAT for the quarter is at 9.3% as compared to 10.1% last quarter. EPS is at Rs.7.35. Excluding Ind AS adjustments explained above EPS would have been Rs.8.22. Our DSO has improved significantly to 65-days as compared to 74-days last quarter. Our utilization including trainees is at 71.4% as compared to 69.4% last quarter. Utilization excluding trainees is 72% as compared to 70.6% last quarter.

Hedges: As of 30th June we have hedges of 41 million at an average rate of 68.16, these hedges are on rolling 3-months basis and expire in Q2. This includes hedges of Euro-INR of 3 million at 77.68 and GBP-INR hedge of 1.5 million at 98.89. Capex spend for the quarter is \$2.5 million. Cash position as at 30, June 2016 is \$73 million. EBITDA to operating cash flow conversion has been strong at 91.5% and on free cash flow it is 75.7%. (ROCE) Return on Capital Employed is 26.9% compared to 30.3% last quarter.

Some points on margin outlook for the next quarter. We will have only one cycle of salary revision for all Mindtree Minds and it will be effective from July 1st, 2016. The salary increase will be in the range of 8% to 10% for offshore and 2% to 4% for onsite, impacting margin by about 2% in Q2. However, the absence of visa cost to the extent of 1% and some improvements on margin of acquired entities, our endeavor is to hold margins for Q2. This does not factor the impact of currency fluctuation. With this I conclude my Financial Update.

Moderator:

Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. We have first question from the line of Sandeep Muthangi from IIFL. Please go ahead.

Sandeep Muthangi:

Hey, thanks for taking my question. I have a couple of questions: The first question is on the margins. Last time around, you had mentioned that despite the headwinds you will be able to retain the margins this year, Y-o-Y. It looks like there were additional headwinds in the quarter. Are you revising the sort of indication that you gave for FY'17 on the margins front?

Rostow Ravanan: Not at the moment, Sandeep, because I think the change in this quarter was mainly because of the delayed revenues in Bluefin which we currently have, our impression is that it is a shift from Q1 to Q2, because the Bluefin business has almost 8-10% decline in revenue from last quarter, and that is what led to the loss at the Bluefin business. Current indications are that a large part of it will come back in Q2 and therefore the business will be back in a growth momentum in Q2 which therefore means that they will be profitable in Q2 again. So, our current working show that Q2 should be stable margins including the impact of the salary revisions in Q2 which Jagan explained. So therefore there should be a path to improve profitability in the second half of this year. So, at this moment, the earlier position largely remains the same.

Sandeep Muthangi: On the revenue metrics, there are a few pockets that are showing weaknesses, like TCV was low and non-top-10 accounts growth was low, etc., I want to see how much of these metrics have been impacted by Bluefin and do you think that we are not seeing the underlying growth that is happening in some of these metrics, because Bluefin is coloring a lot of these revenue metrics in the quarter?

Rostow Ravanan: Not really. I think they are two different issues. In our top-10-customers you are right, the largest customer has grown and #2 to #10 has had some challenges. Little bit of it is I think probably a little bit deep-rooted in the sense that the customers facing pressure, there are deferrals of projects or cancellations of projects, etc., a little bit of it is as you rightly said in the historical Mindtree business if I can call it that and there is a separate issue of Bluefin; however, some parts of the slow performance in both of these parts in Q1 are likely to recover in Q2 and continue thereafter, but some of it is obviously a little bit more deep-rooted.

Sandeep Muthangi: Just give us a better perspective on the confidence behind the 2H recovery and stuff. What is it largely based on -- is it that you expect some of deals that you have already signed to ramp up or discretionary spending to happen or your confidence behind your 2H commentary that I understand you are seeing a lot of traction somewhere that is giving this good robust commentary on 2H, I just want to get more insight into where exactly is the traction happening, is it deal wins that you have done that will ramp up or is it some large deals that you expect to get signed over the next couple of months and ramp up in 2H, where exactly is this confidence coming from?

Rostow Ravanan: So there are a few customers where we have signed up in this quarter where the projects are starting late, either because the customer was not ready or some previous steps that needed to be done has not yet been done, etc., including for example, we have three reasonably large wins in Europe which we believe would not start immediately given the fact that most of the organizations in Europe will have large vacations in July and August. So, either signed up customers where ramp-up is low or signed up customers where projects have not yet started and likely to start second half of August or September kind of period, so that will lead to some growth. Second reason for confidence is some of the impact that we have had because of client-specific issues which affected Q1 growth, that headwind will not exist in Q2 or thereafter. So the momentum will appear to be more stronger in Q2 a little bit and obviously in Q3 and Q4 on

a larger scale. So, those are the reasons why we think the second half of this year is likely to be stronger.

Sandeep Muthangi: Okay. Thanks for that insight, Rostow. All the best for the year ahead.

Rostow Ramanan: Thank you.

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

Manik Taneja: Thank you for the opportunity. Trying to prod you a little further on the revenue outlook. Just trying to understand if you could help us run through some of the outlook within your top customers in your focus verticals, because you had called out for some delays back in March? That is question #1. Second thing is that, while you do not give enough guidance, you had indicated that our intent this year was to grow ahead of industry and given (+15%) revenue goal trajectory that we have seen over the past three years, we should essentially look at a growth number like that. Does that still hold true for us?

Rostow Ramanan: The short answer to the second question is yes, so the year as a whole is likely to be ahead of the current industry estimates and there is no change on that front. On the growth for the rest of this year, like I mentioned to the previous question, one or two project-specific, client-specific issues in terms of whatever delayed ramp-ups or deferred decisions, etc., and some new wins which have not yet ramped up and all of those led to confidence for growth in the second half of this year. I would say given the fact that at overall level both for growth and for margin the Bluefin business does play a material impact. While they had a degrowth in this quarter sequentially compared to the previous quarter because of both environment issues as well as client-specific issues within that business, if they achieve the expectations or the projections we see for that business as of now for Q2, I think on a cumulative basis they will make up. So the growth in Q2 is likely to be more than compensatory for the slowdown in Q1.

Manik Taneja: If you could give us the quantum or the contribution of revenues from Bluefin and Relational in the current quarter?

Rostow Ramanan: Bluefin achieved \$9.5 million in revenues in this quarter and RSI was relatively small; \$400,000.

Manik Taneja: How about the other acquisition?

Rostow Ramanan: Last was Magnet 360, that achieved \$7.4 million revenues in this quarter.

Manik Taneja: Sure. Thank you and all the best for the future.

Moderator: Thank you. We take the next question from the line of Shashi Bhushan from IDFC Securities. Please go ahead.

Shashi Bhushan: Thanks for taking the question. For the deal closure that is leading to the confidence for the full year, what was the vertical that we have seen it coming from and any insight on BFSI contribution in the same?

Rostow Ravanan: I think the new wins are I would say reasonably spread across all verticals. But the issue is therefore not at a vertical level, I think within each of our four verticals, some customers are seeing their own business in a good shape and some customers within a same vertical because of specific issues within their account are seeing some challenges there. So, it is a broad level vertical kind of a picture but more account specific between all of those verticals, both on the good news as well as on the current headwinds.

Shashi Bhushan: Last on the pricing front. The pricing decline in the quarter was rather a steep. Can you illustrate the trend that we are seeing going forward as far as realization of pricing is concerned? Thanks.

Rostow Ravanan: The realized rates are to some extent is a composite number that includes effort, number of working days and multiple other factors. But underlying driver within that is two opposite trends. I think there is reasonably positive commentary or positive story on our Digital business and in areas where we have very strong expertise like Salesforce. But on the Traditional Services is where we are seeing maximum pricing pressure from customers.

Shashi Bhushan: Thanks. That is all from my side, sir. All the best.

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

Madhu Babu: Sir, our onsite has been increasing continuously over the last couple of quarters. Now for the margins to come back to 17%, are you looking at increasing offshoring, and how the margin recovery will happen even in H2, because 2Q if it is at 15%, I think it is a very difficult task for the full year?

Rostow Ravanan: Like I said, part of the reason is where we had slower growth in Q1 was some projects which we had won or some contracts which we have signed, the ramp up is delayed. So, I think maybe in some cases the initial onsite piece has started but the follow on larger offshore piece has not yet started, therefore likely to start in the next one or two quarters. So you are right, offshore revenue should start growing over the next two-three-four quarters. On the margin improvement, part of the answer is yes, offshore kind of growth should also help us get some margins improvement and like I said one large component, almost 1.5% of the profitability swing from last quarter to this quarter like Jagan explained was because of the Bluefin business swinging from profit to loss. If that business gets back its growth like is expected in Q2 and therefore swing back into profitability in Q2, that should also be a margin lever for the rest of this year on overall consolidated level.

Madhu Babu: Second, there was a steep decline in headcount this quarter and that has still not helped margins. So, are there any involuntary attrition?

Rostow Ravanan: No, we did not force any involuntary attrition this quarter. There has been a margin improvement, because if you see there is a utilization improvement of almost 2% in this quarter at an overall level. So that was the benefit that we got in this quarter.

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

Mohit Jain: Hi! Sir. A couple of questions: One is on the usual trajectory that we have seen first half versus second half. Your commentary suggests second half should be much stronger given the 2Q will be flattish. So is there any specific reason for this change in trajectory or are you anticipating an improvement in environment or is it more to do with the deal wins, which are already there and are ramping up?

Rostow Ravanan: A combination of all of them, like I explained before in some specific accounts in some of our verticals, there are project-specific issues where the project did not start, etc., and in a few of the contracts that I signed with some of our new customers during the quarter, those ramp-ups are also delayed and which should start happening during Q2 and obviously becomes full impact of those growth should happen in Q3. So that is the expectation for how we are going to get growth in Q2 as well as in the latter half of this year.

Mohit Jain: Second is on the volatility. Do you think this quarterly volatility is higher because of more short-term deals that you are signing now versus earlier, and therefore we should expect this kind of volatility to continue?

Rostow Ravanan: I am not sure it is because of type of deals, because we are winning I would say contracts that we have at least a year's worth of exposure or sometimes even longer than one year. But in the beginning of this year, we did anticipate and we shared that in the commentary when we announced Q4 results for last year that this year is tending to be more volatile than the past, like we explained in April also, the year as a whole is likely to be a strong year but there will be unevenness between quarters.

Mohit Jain: So your organic guidance is 15%, or you are counting in all the acquisitions that have already happened?

Rostow Ravanan: We did not specifically give a guidance number per se, but whatever number we gave is for Mindtree as a whole, and to some extent like we said even in this quarter between quarters some business units does a little better and some business units faces some challenges. But as far as we are concerned, it is now Mindtree as a whole with the entire portfolio of services that we are talking about.

- Mohit Jain:** Deal wins I noticed were lower this quarter, whereas the previous seasonality was 1Q deal wins should have been higher compared to the fourth quarter. So, any specific reason for softness in new TCV signed?
- Rostow Ravanan:** Like we explained, some of our clients are facing lot of uncertainty in their own businesses, and to that extent some projects decisions are getting deferred or delayed and some projects are probably not progressing and there are cancellations as well. So that is what affect us the growth in Q1 this year. Some of it is because of changes in their own business and some of it is also because like I said of the environment, for example, in some of our European customers given the environment that is also leading them to slow their technology decisions.
- Jagannathan C Narasimhan:** Mohit, this is actually a little bit of seasonal impact also was there. Normally, January to March quarter the new contracts will be signed by the customers. Generally budget approvals happen during that quarter, so tend to be little bit high on that.
- Mohit Jain:** Last on the headcount. Is there a possibility of further reduction or we are done with more or less?
- Rostow Ravanan:** On headcount, if we do not depend on further adoption, like we said, we expect the business to grow and we also have fairly strong campus addition of about 450 people in Q2, so the headcount should increase in Q2 compared to Q1.
- Mohit Jain:** I missed your comment on TCV. You are saying 1Q is seasonally strong or is it seasonally weaker?
- Rostow Ravanan:** He just said Q4, the contract signings were a little higher because customers budget cycles usually are linked to calendar year.
- Mohit Jain:** So therefore Q1 is expected to be little softer, that is what you mean?
- Rostow Ravanan:** No, I think there were two different issues; January to March quarter was strong, because many customers just started their budget cycle, etc., Q1 was weak because like I said some of our clients are facing cost pressures in their business and some of our clients are anxious because of the environment at the moment.
- Mohit Jain:** But last year, the trend was exactly opposite. Your first quarter, which is April, May and June was quite strong in terms of TCVs signed.
- Rostow Ravanan:** Correct. What I said just now was the explanation for how Jan to March this year 2016 panned out and how April to June this year panned out.
- Moderator:** Thank you. The next question is from the line of Sandeep Shah from CIMB India. Please go ahead.

Sandeep Shah: Yes, thanks for the opportunity. Just Rostow, I think in the last conference call, you said that the growth is likely to be upwards of 15%. So, that requires almost like 4.5% compounded Q-o-Q growth in the next three quarters, where you are saying 2Q would be also a bit challenge and we expect the recovery in the 2H which is seasonally not that great period for the industry. Second, on the margins also, if we are saying that for the full year, margin would be flattish, that requires almost upwards of 20% EBITDA margin in the 2H. So what kind of levers we are counting on this?

Rostow Ravanan: I will take the second question first; the levers on profitability - largest would be revenue growth, because like we mentioned by and large sort of all the cost increases are either already factored in or they are known and revenue growth is likely to be stronger, so that should lead to margin improvements then. Both for the organic Mindtree business for example in this quarter as compared to previous quarter the fall was only because of visa cost largely. If you exclude the impact of extraneous situation like currency or the change in the accounting standards, the biggest impact in the organic Mindtree business was just the visa cost there. So when growth comes back, both for the Mindtree business as well as Bluefin and Magnet, all of that should lead to improved profitability for the rest of this quarter. For the revenue growth rate, yes, Q2 is relatively sort of stable to low growth and then that will obviously mean strong growth in Q3 and Q4. All current available indications are that that should materialize.

Sandeep Shah: So this time we are fairly confident that 2H seasonality would not be a headwind for us in terms of revenue growth?

Rostow Ravanan: Exactly. Any which way you look at it, the year as a whole will be strong because of good growth in second half of the year.

Sandeep Shah: So we still retain our aspiration to grow above 15% which we indicated earlier?

Rostow Ravanan: Yes, like we explained earlier, we will grow faster than the industry for this year.

Sandeep Shah: We have a client-specific issue within the top-20 or 25 clients. We said last time in BFSI, Retail, CPG we had some clients. If you can give some color on how many clients we have or issues?

Rostow Ravanan: Do not have the picture as of now amongst our top-25 clients, but if you look at our top-10 clients I would say maybe about 3 or 4 have account-specific issues in different verticals. That is the picture I have for top-10 clients at the moment.

Sandeep Shah: The offshore pricing has been steeply down by 4.5% on Y-o-Y, it is upwards of double-digit. So, this 4.5% decline in Q1 has been fairly in the numbers or will have some impact on the next quarter as well?

Rostow Ravanan: Offshore wage decline was predominantly because of offshore volume decline in this quarter. So therefore more of the recent work that we have started is more onsite-oriented. So when the growth momentum comes back like I said, more of the follow-on work or subsequent modules

on the initial work should come which are more offshore-oriented, so we think the pricing should improve. The only I would say an underlying theme is that by and large you are getting some amount of pressures from our customers on the traditional business what we are leveraging to more than the disruptive business model, etc., on our innovative kind of service lines we are seeing good pricing in some service lines.

Sandeep Shah: So we do not expect the pricing decline hereon?

Rostow Ravanan: No, nothing as we know, as of now indicates that there will be a continuous price decline for the offshore prices for the rest of this year.

Sandeep Shah: The notes to accounts is Ind AS 115 has not been yet applied. So can you throw some light, because it has been also saying it could have a material impact?

Jagannathan C Narasimhan: This Ind AS 115 is a revenue standard and this has been deferred by Government of India on application because (IFRS) International Financial Reporting Standards board have deferred it by two years. So we will be revisiting after two years on this accounting standard. We do not see immediate change on this now.

Sandeep Shah: Okay, thanks and all the best.

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

Gaurav Ratheria: Could you help us understand what are the reasons for the delays or cancellation -- is it related to weak macro environment which happened due to the Brexit issue or it has been there for a while irrespective of the Brexit issue?

Rostow Ravanan: I think multiple reasons, obviously, the environment in Europe is one factor, but the other factors in terms of global, the US political changes, multiple factors led to it. We had some indication of this from clients even in the February-March kind of a timeframe which is why when we announced the results in April for Q4 we did indicate a soft start to this year.

Gaurav Ratheria: So, earlier you had mentioned some client-specific issues in Retail and BFSI, which actually have done relatively better in this quarter, but weakness has happened in other verticals like Travel. So, do you think the client-specific issues are now spread to a larger part of the business versus your expectations earlier three months back?

Rostow Ravanan: I think the reason for Travel like I said some one or two clients specific issues whereas few programs got deferred, etc., but on a broader basis even in February-March there was a feeling that clients across verticals are giving us some mixed signals. So it is not that any vertical, all of RCM or all of BFSI are in trouble, but it is the few customers in each of the verticals that are facing some headwinds.

Gaurav Ratheria: Lastly, on the deal win momentum, we have seen some amount of slowdown, you indicated some amount of seasonality to it. But, do you think to achieve the industry-leading growth outlook, which you were sharing, you need to continue to improve that deal win momentum or at the current rate itself, you should be able to achieve your outlook?

Rostow Ravanan: Obviously we need some improvement in deal wins because otherwise getting growth is difficult, but I would say a reasonable amount of incremental wins that are required either have been already contracted except that they have just not started or there is fairly close or fairly in advanced stages in the pipeline and therefore should start giving us some benefit little bit in Q2 and more in Q3 and Q4.

Moderator: Thank you. The next question is from the line of Nitin Padmanabhan from Investec. Please go ahead.

Nitin Padmanabhan: Bluefin business is based out of the UK and it is discretionary in nature. If you look at that business, I think it is relatively higher revenue replenishment rate versus rest of the company. So, in that context and looking at the Brexit and the situation out of the UK, do you think that there could be any sort of headwinds going into the second half that we may not be able to foresee at this point in time or should there be a sort of caution there or what are your thoughts around that actually?

Rostow Ravanan: At this point of time, we have two different data points – one is a couple of large clients of Bluefin had like I said some changes to their business priorities and therefore a few programs were canceled or some programs are closed or they did not start anything new, etc., that happened I would say during the course of the quarter. However, their pipeline is also fairly strong which is why there is a high degree of confidence that if they achieve what the projections we have or that we are working on now for Q2 it should make up for the slower or the negative growth that we saw in Q1. It is I would say a combination of different factors – one is in some clients issues are there, their growth priorities, etc., have changed and some environment factors like the macros that you are seeing in Europe. So it is a combination of that are leading to the picture that we are seeing.

Nitin Padmanabhan: On the clients that we have, whatever slowdown we have seen in terms of let us say from the pipeline or the closures across the company, is there anything to suggest that most of these instances are out of Europe or the UK relatively?

Rostow Ravanan: No, some of the challenges are in European business and I would say there are one or two issues in some of our US clients as well. So, it is not that all the problems are only in Europe. Difficult point to say is the US customers also reacting because of the European issue or there are sort of underlying trends that are affecting global businesses, so that is an unknown piece as of now.

Nitin Padmanabhan: There is nothing to suggest that they have a higher proportion of their revenue from Europe or the UK and thereby they are reacting to things the way they are?

- Rostow Ravanan:** No, we do not have that impression at the moment.
- Nitin Padmanabhan:** Sure. Fair enough. Thank you so much.
- Moderator:** Thank you. We take next question from the line of Ashish Chopra from Motilal Oswal Securities. Please go ahead.
- Ashish Chopra:** Yes. Hi! Thanks for the opportunity. Rostow, Sorry to harp on it, but just wanted to understand from you, the expectations of a strong 2H. So given the fact that some of the slowdown that you mentioned is more because of the macro, etc., so is the visibility coming because you see some of those client-specific impacts and the clients being better off going forward, because the macro if anything looks only more volatile or uncertain at best. So, is it a bit of a more of visibility from bottom up spending that has already begun to happen or are you saying that since these are deals in the bag you expect them to be distributed a bit later?
- Rostow Ravanan:** I think it is more of latter. Some of the wins that we had just ramped up little slower and some of the quarters that we already have got impacted because of the macro issues. So that is why we think there should be reasonable growth in Q2 and stronger in Q3 and Q4.
- Ashish Chopra:** So, just to get a bit more color on the near-term, you did mention that some of these ramp-ups are happening in 2Q, while at the same time you also are cautious about 2Q, saying that some of the weakness may prevail. So, how should I look at the recovery vis-à-vis the growth in 1Q? So, do you see this improving in terms of growth performance next quarter or that should only happen from the second half with second quarter being fairly similar?
- Rostow Ravanan:** Current indications are that growth in Q2 will be similar to the growth in Q1 mainly because some of the recent wins for example have been amongst our clients in Europe which will probably contribute only maybe 1 or 1.5 months of revenue in this quarter given the fact that large part of Europe will be on vacation for most of July and August and therefore the larger benefit of that recent wins plus ramp-ups, etc., should happen from Q3 onwards.
- Ashish Chopra:** Also your top client, I guess, crossed the \$100 million mark on an annualized basis this quarter. So, just wanted to understand, do you see that maybe saturating or slowing down versus the significant growth it has had in the recent past, or you see enough room to grow there as well?
- Rostow Ravanan:** Our largest customer follows the July to June cycle, so therefore fairly successful period for that account stream in the last few months. I would anticipate we probably now hold this trajectory, may not have the same growth in every quarter, because like I said their budget cycles are not calendar year, so I think it probably won us the similar sort of run rate as we see as of now. Not because the growth is available or not available, it is just more because aligning with their budget pressure. If there are new opportunities, I think we would be a very strong contender for those.
- Ashish Chopra:** If you could just quantify the impact of Bluefin on the margins in this quarter again, that will be helpful?

Rostow Ravanan: Like I said large part of the impact on the Bluefin margin or revenue decline from last year to this quarter, there are approximately \$10 million in the previous quarter and about \$9 million in this quarter, so it is \$1 million reduction in the revenue between the quarter. They should make up definitely that much or more in Q2 based on the pipeline and based on the customer feedback we have as of now. If they get that growth like what we are anticipating, their bottom line should also obviously grow correspondingly.

Ashish Chopra: Got it. Thanks, Rostow. That is it from my side. All the best.

Moderator: Thank you. The next question is from the line of Vibhor Singhal from Phillip Capital. Please go ahead.

Vibhor Singhal: Sir, there is just a bit of confusion regarding the guidance for the second quarter and the second half. So just wanted to clarify it once again; so you expect the second quarter to be flat on revenue growth basis or you are guiding to similar kind of a growth rate in second quarter as in the first quarter?

Rostow Ravanan: There should be some growth in Q2 compared to Q1.

Vibhor Singhal: We still maintain our full year numbers, I mean, subjective guidance that we had maintained that we will be able to be basically beat the NASSCOM guidance for the full year per se?

Rostow Ravanan: That is correct, no change to the full year picture as of now.

Vibhor Singhal: So despite the fact that that would mean, looking at more than let us say around 4% CQGR in the last two quarters itself?

Rostow Ravanan: Like I said, we are not commenting on the percentage number, because then obviously that means you are giving guidance. **We see** that the year as a whole should be a good year for Mindtree.

Vibhor Singhal: Then gain on the margins front I know it has been asked before, so basically if you are going to do similar kind of margins in second quarter, that would mean we would need to do at least kind of 20% margins in the second half. Now, these are the kind of margins we have not done for the last six quarters, and given that third quarter itself will have lot of basically holidays and less number of working days, do you believe we will be able to do those kind of margins in the second half itself? I mean, revenue growth definitely will aid the margins, but to take up the margins from 15% levels to around 20% levels will be a huge kind of jump. So what exactly gives us confidence that we will be able to do those kinds of margins?

Rostow Ravanan: Again, I am not commenting on the 20% number that you are using in your calculation, but if you look at the impact that we have between Q4 and Q1, some of them are one-off, for example, visa, etc., and therefore for example if we can run the business on the basis that in Q2 even though we have 2% impact because of wage revision, there are other things were compensated,

so if it is already a stable margin picture in Q2 and therefore there are no new incremental large costs coming to us in Q3 or Q4, there should be a way for us to increase margins during the course of this year.

Vibhor Singhal: I missed out the number, what was the contribution of revenue from Magnet 360 in this quarter?

Rostow Ravanan: \$7.4 million.

Vibhor Singhal: Thanks a lot, sir. I will come back in the queue sir, I have more questions.

Moderator: Thank you. The next question is from the line of Abhay Moghe from Bajaj Allianz. Please go ahead.

Abhay Moghe: Just one thing, whatever you are guiding for on the revenue growth perspective, wherever the problems are, maybe Bluefin or some of the accounts, which have deferred or some of the ramp-ups in the deals. Going by month-on-month, like from April, May, June and 15-days, 16-days of July, the things went bad in April or May and then they started improving from June and now in July or the problems happened somewhere in May, June and maybe customers have promised you that later on things will get improved and you are having the confidence on that. So, I just wanted to know where exactly the confidence is coming from?

Rostow Ravanan: I think the positives continued as per plan, whatever was in the pipeline as of 31st March for example have largely progressed as per plan during the course of the quarter. One or two incremental headwinds hit us in April and May, but those were I would say one-off kind of cases where they may impact something and that impact should get washed out in 2-3-months kind of scenario. So that is what gives us the confidence on the full year.

Abhay Moghe: Sir, just a follow-up on this. The way the call has gone by and whatever your comments had been, I understand that these whatever problems are more related to macro issues and nothing related to company-specific or client-specific issue?

Rostow Ravanan: No, that is not true, there are client-specific issues and like I said before across verticals and across geographies there are one or two clients have had issues that's one data point. Second data point obviously the environment issues are also holding some of our clients or deferring or delaying their decisions or making them ramp-ups more etc., So, we did see both issues.

Abhay Moghe: So to make things more clear, your whatever guidance on revenue and margin is, does not include any future potential risk from the macro environment turning bad, right?

Rostow Ravanan: It does not include. So tomorrow for example if something really bad happens, god forbid, global terrorism event or anything like that and that therefore changes the pictures and that is new news that whatever impact it has will have.

Abhay Moghe: Great. Thanks a lot and best of luck for the full year.

Moderator: Thank you. The next question is from the line of Harit Shah from Reliance Securities. Please go ahead.

Harit Shah: I just wanted to clarify one figure, I think I might have missed that at the start of the call. I think the constant currency growth is, did you say it was 1.1%, Rostow?

Rostow Ramanan: That is correct.

Harit Shah: So therefore are you trying to imply therefore there is 100 basis points impact of the cross currency. I think that seems to be a little on the higher side. Is that correct?

Rostow Ramanan: That is correct. So the reported currency growth is 2% and the constant currency growth is 1.1%.

Harit Shah: Specifically, which currency did you see such a strong tailwind, because I do not think any of your peers either TCS or Infosys, which have reported so far had such a strong impact, so if you could just give some color on that?

Rostow Ramanan: I think some of the others probably have also reported a same number, but for us, the currency where we had the maximum swing was GBP to USD.

Harit Shah: So, I guess that would then reverse in this quarter. Would that be the right way to look at it given the GBP reaction post Brexit?

Rostow Ramanan: Like I said it is difficult to tell because the way accounting works is average rate during the course of the quarter as well as month end rates at the end of every month, so therefore we will have to wait and see. Last two or three days' movement it is difficult to sort of make an estimate of how the currency will move during the course of the quarter.

Harit Shah: Okay, thank you. That is all from my side.

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

Dipesh Mehta: Sir, I have a couple of questions. Can you help us understand, because this quarter onwards we included Bluefin and Magnet into part of vertical breakup, so, can you help us understand excluding Bluefin, how was the vertical performance for us this quarter, just provide some color, how BFSI and those verticals did, excluding this adjustment which we started from this quarter? Second question is, can you provide constant currency growth rate for euro? Last thing is about, can you help us what would be the effective tax rate for us going forward?

Rostow Ramanan: I will ask Sushanth to give you the answer to the first question, vertical wise performance without the Bluefin impact.

- Sushanth Pai:** Without the acquisition impact, so if you see Hi Tech and Media grew about 4%, BFSI was about 3.6%, Retail, CPG was about 4.5% and Travel and Hospitality was about 6.2% decline. So that is the way it stacks up for without the acquisitions. Europe if you see on a quarter-on-quarter basis there was a decline of 3.9% on a consolidated level, but if you exclude the acquisitions, decline was about 1.4%.
- Dipesh Mehta:** This you are referring to in constant currency?
- Sushanth Pai:** This is reported currency.
- Dipesh Mehta:** So in constant currency what is the number?
- Sushanth Pai:** Constant currency we do not have the number right now.
- Dipesh Mehta:** In terms of now effective tax rate, how we look for current year and next year?
- Jagannathan C Narasimhan:** Effective tax rate will be between 24% to 25%.
- Dipesh Mehta:** Sir, any specific reason apart from SEZ related things, which drives the tax rate for us?
- Jagannathan C Narasimhan:** There have been some changes like one of our units has moved from 100% tax exemption to 50% tax exemption, but this is also on the consolidated basis.
- Rostow Ravanan:** So the predominant shift in tax rate will only be because of the SEZ regulation.
- Dipesh Mehta:** Okay, sir, got it. Thank you.
- Moderator:** Thank you. The next question is from the line of Ravi Menon from Elara Securities. Please go ahead.
- Ravi Menon:** I would like some color on whether the slide in your Travel and Hospitality, is it a single client or spread across multiple clients?
- Rostow Ravanan:** It is more than one client.
- Ravi Menon:** Second, could I have the puts and takes on the margin for this problem for this quarter?
- Jagannathan C Narasimhan:** The reported EBITDA for us is 14.7%. We had 1% impact because of visa fees and 0.8% because of operational parameters, mainly because of Bluefin; Bluefin had a loss this quarter, that has a main impact and we had currency impact of 0.2%. So last quarter the reported margin was 16.7%. This is a walk through from last quarter to current quarter.
- Ravi Menon:** If I compare this visa impact to the last year, so it seems like it is a little higher, is it mostly because of the higher fee or have we applied for a higher number of visas?

Jagannathan C Narasimhan: No, not higher number of visas, this is mainly because of higher fees and the last time it was much more, this time it has come down.

Moderator: Thank you. The next question is from the line of Pankaj Kapoor from JM Financial. Please go ahead.

Pankaj Kapoor: Jagan, is it possible to give out any Ind AS selected impact on the margins in this quarter?

Jagannathan C Narasimhan: Ind AS had a revenue impact on that, but not on the EBITDA level, EBITDA level was very-very minimal; it is about 0.3% impact, but PAT level, yes, there was a huge impact because of the amortization of the intangible assets due to the acquisition. During the acquisition in IGAAP, we will account only for goodwill, but in Ind AS, we have to recognize the other intangibles also like customer contracts. Those things have to be amortized, because it has a fixed life. So that amortization impact was around Rs.13.2 crores this quarter which had 1.2% impact on PAT.

Pankaj Kapoor: So this would be at the EBIT margin level?

Rostow Ramanan: You are right, at an EBIT level, yes.

Pankaj Kapoor: Sir, on an absolute basis, I think the depreciation, amortization expenses have come down quarter-on-quarter. So, does it mean that depreciation on its absolute basis has declined significantly?

Rostow Ramanan: Yes, the depreciation portion has come down from last quarter to this quarter.

Pankaj Kapoor: Rostow, just one question, I think we have discussed the guidance and the performance set there. But this quarter performance was in line with when you said last quarter that the first half will be weak. So, the current quarter growth was in line with broadly what you were anticipating or was an incremental negative?

Rostow Ramanan: No, on the revenue side, I think the reality is very similar to what we had anticipated at the beginning of the quarter. One or two things where became worse on the bottom line front compared to the picture at the beginning of the quarter what we discovered during the course of the quarter.

Pankaj Kapoor: So, that means that the Bluefin business decline also was something which we had foreseen that in the current quarter things might not be very-very strong compared to the last quarter?

Rostow Ramanan: That is correct.

Pankaj Kapoor: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Shashi Bhushan from IDFC Securities. Please go ahead.

- Shashi Bhushan:** Did you say Q2 growth is similar to Q1, and is it in constant currency or USD terms?
- Rostow Ravanan:** Reported currency terms.
- Shashi Bhushan:** How is the average contract value for Bluefin?
- Rostow Ravanan:** Do not have the number right now, Shashi, maybe we can work on it and update you either during the quarter or end of the quarter.
- Shashi Bhushan:** Very ballpark number, is it like \$100,000 or \$500,000 kind of contract that we get in Bluefin?
- Rostow Ravanan:** Do not have the picture right now. The number of customers are fairly small in that business but do not have a data readily available on average contract size.
- Shashi Bhushan:** No issues, sir. Thanks for taking my question again.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand over the floor to the management for their closing comments. Over to you.
- Sushanth Pai:** Thanks, Karuna. Thank you, all for joining this call and we look forward to speaking with you in the coming days. Thanks once again.
- Moderator:** Thank you very much, sir. Ladies and Gentlemen, on behalf of Mindtree Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines