Mindtree Limited

(NSE: MINDTREE, BSE: 532819)

Transcript of analyst call

Fourth quarter ended March 31, 2021

April 26, 2021

Moderator: Ladies and gentlemen, good day and welcome to the Mindtree Limited Q4 FY21 Earnings 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 the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Amisha Munvar, Head of Investor Relations at Mindtree. Thank you and over to you, Ms. Munvar.

Amisha Munvar: Thank you, Janis. A very warm welcome to this conference call to discuss the financial results for the fourth quarter and the year ended March 31st 2021. Trust all of you and your loved ones are safe and in good health. Today, on the call, we have with us, Mr. Debashis Chatterjee - Chief Executive Officer and Managing Director, Mindtree; Mr. Venu Lambu - Executive Director and President, Global Market, Mindtree; Mr. Dayapatra Nevatia - Executive Director and Chief Operating Officer, Mindtree and Mr. Vinit Teredesai - Chief Financial Officer, Mindtree.

We will begin with a brief overview of company's quarter 4 performance after which we will have the floor open for Q&A. The webcast will be in listen-only mode, but you can post the questions over there. We will take the webcast question 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 fraternity, request you all to please disconnect as we concluded the media briefing in the evening.

Before I hand over, let me begin with the safe harbor statement. During 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 as outlined in the quarterly fact sheet uploaded on our website. We do not undertake to update those statements periodically. With this, I pass it on to Debashis for his opening remarks.

Debashis Chatterjee: Thank you, Amisha. Good evening and good morning to everyone on the call. Trust you and your loved ones are safe and doing well. As we close FY21, we are fully aware that the year presented unprecedented challenges that none of us could have ever anticipated. However, all of us have risen to the occasion and demonstrated extreme resilience and adaptability. I am very proud of how we at Mindtree have overcome every challenge to be there for our clients and Mindtree Minds when they needed out the most. As the market environment continues to be dynamic with promising news of the COVID-19 vaccination drive on one side and the risks of resurgence of infection on the other, we are conquering the situation carefully.

The Q4 results of US $288.2 million revenue and 21.9% EBITDA margin confirms the strength and resilience of our business model and the relevance of our market offerings. We had defined a clear path for profitable growth and we continue to execute out the 4/4/4 vision focusing on building deeper strategic relationships with our clients, seamless secured delivery, robust partner ecosystem, strategic investments and capabilities and constantly future-ready talent.

The business rebound in FY21 despite significant challenges and ongoing uncertainty across industries is a testament to our proactiveness and agility along with the client confidence we have earned. During the year, we were able to construct and win many first-of-a-kind engagements for Mindtree both from complexity and from tenure perspectives. Our investments in building the strength of our frontline sales team along with the solutioning and delivery teams have helped us immensely in our ability to deliver transformational projects at scale.

With this, let me provide some more details from Q4 and full year perspectives. Continuing our sequential growth momentum, in Q4, we delivered US $ revenue growth of 5.2% making it our second consecutive quarter of 5% plus growth. Our quarterly revenue of US $288.2 million is also the highest ever revenue for the quarter. After providing the wage hikes across the organization effective Jan 1st, our EBITDA for the quarter was 21.9%. For the full year, revenue is at US $1,076.5 million and EBITDA is at 20.8% which is 680 basis points improvement from last year. We ended the full year with a healthy order book of nearly US $1.4billion representing year-on-year growth of 12.3%. For the last quarter, amongst industry segments, communications, media and technology grew 4.1%; retail, CPG and manufacturing grew 8.6%; banking, financial and insurance declined 1.1% and travel, transportation and hospitality grew 16.1% sequentially. For the full year FY21, communications, media and technology grew 20.7%; retail, CPG and manufacturing grew 0.6%, while other showed the de-growth. Amongst geographies for the quarter, North America contributed 76.6%; Continental Europe, UK and Ireland together contributed 15.7%; APAC and Middle East contributed 7.7%.

Our focus and investments in Europe has begun to yield results. Continental Europe, UK and Ireland together grew 8% sequentially. The revenue contribution from our service lines for the quarter were customer success at 38.6%; data and intelligence at 16%; cloud at 19.4% and enterprise IT at 26%. The need of our client is to maximize efficiency as well as leverage disruptive technologies and trends for enduring success and we are partnering with many of them on their transformation journey.

Let me touch upon a few examples of deal wins in the past quarter. We signed the multiyear engagement with the global leader in design and manufacturing of household appliances to transform their online retail experiences into it. We have been chosen as a strategic partner by a leading global travel software and technology company to modernize their passenger reservation platform and accelerate their cloud transformation journey. We have been selected by a leading bank to provide salesforce transformation services across multiple geographies for their Asset Management division.

A robust delivery backbone and disciplined execution have been key to our success. Enterprises across sectors are increasing focus on leveraging data, cloud and disruptive technologies to thrive in the new normal while ensuring the business IT foundation in resilient, efficient and agile.

Let me share details of a few engagements that we delivered during the quarter. A large multinational paints company wanted to modernize their mobile application which less users visualize their walls and differentiates in real time with the focus on user experience and scalability. We re-engineered their application ground – up leveraging augmented reality. Our application on the Google Playstore received all time high rating and enabled 40% growth in the user base. A large technology giant wanted to optimize their technology documentation platform which ran on legacy technology. We partnered with them to modernize the platform leveraging Azure Solutions while introducing new features to enhance collaboration. As a result, site performance include significantly with zero downtime. Risk and humanitarian organization has been at the forefront of our economy and physical recovery through the pandemic and efficiency and time to market is critical for them. We are proud of our work with an American Humanitarian organization where we implemented a cloud based automated solution across more than 100 collection sites nationwide helping to achieve more than 98% reduction in nonconformance and significant dollar savings per year. For a large American credit reporting agency who wanted to modernize the business critical user engagement platform, we helped in migration to Google cloud platform along with decommissioning their on-premise infrastructure.

I would also like to recap on a few milestones achieved during the year. We rolled out our simple and robust strategy of 4/4/4 and have started executing on it. We returned to broad based profitable growth keeping focus on long-term annuity deals. We built a strong and experienced leadership team across the organization. We successfully set up and scaled our strategic partnerships with key hyperscalers and the industry leaders such as Microsoft Azure, Databricks, ServiceNow and Google Cloud platform and many more. We simplified and streamlined our operational processes and delivery enabling us to deliver continued margin improvement. We have ensured the physical, mental and emotional wellbeing of our Mindtree Minds by several interventions and assistance programs. In addition, we are rolling out a comprehensive COVID-19 vaccination plan in India for all Mindtree Minds and their families. We garnered some significant analyst recognitions such as Mindtree recognized as a leader in the ISG Provider Lens, Salesforce Ecosystem Partners 2021 reports for salesforce implementation, integration and managed application services for large enterprises across the US and as the leader in the ISG Provider Lens Mainframe Services & Solutions 2021 in the US, as a Major Contender in the Everest PEAK Matrix Assessment 2021 for software product engineering services. Our employee value propositions have shown consistent improvement across the world reflecting an improved utilization, better offshoring and continued reduction in acquisition.

I take this opportunity to appreciate and thank the leadership team and all Mindtree Minds for their collaborative spirit and unrelenting dedication. People-friendly policies, high standards of corporate governance along with promotion of diversity and inclusion have always been at the forefront for Mindtree which has been reaffirmed by the recognitions won during the quarter; first place in the Workforce Planning and Staffing Solutions category in the People First ACE award presented by National HRD network; winner of the Golden Peacock National Award 2020 for corporate social responsibility; second runner-up position in the Best Employer for Women (large) category by the associated chambers for commerce and industries of India which is the Assocham; winner in the Excellence in Employee Welfare Initiative by the BW Business World HR Excellence Award 2021. With encouraging demand traction and our deal wins, we have accelerated the process of talent acquisition both campus and lateral to twice the earlier volumes leveraging online assessment tools and new referral platform and our close-knit partner ecosystem. Learning enthusiasm amongst the Mindtree Minds continued with an approximately 50% increase in learning hours year over year on virtual platforms.

We ended Q4 with over 23,800 Mindtree Minds including a net addition of more than 1600 minds. With continued focus on employee engagement initiatives, our attrition dropped to 12.1% on an LTM basis for the quarter from 12.5% in Q3. I would now like to turn it over to Vinit to walk you through our Q4 and full year financial highlights. Vinit!

Vinit Teredesai: Thank you, DC. Good evening, good morning to everyone on the call. In an extremely challenging year, our teams rose to the occasion. Our performance has been consistent and robust. We delivered a broad-based revenue growth of 5.2% quarter-on-quarter and 3.5% year-on-year in the dollar terms. Ex. travel and hospitality vertical, our revenue growth was 8.1% and overall revenue growth declined by 1.1% for the full year. Our reported EBITDA margin for the quarter is at 21.9% compared to 23.1% in Q3. For the full year, it is at 20.8% as compared to 14% in FY20. The drop of 120 bps in EBITDA margin versus the prior quarter was primarily driven due to an impact of 240 basis points from our planned wage hikes, FX headwinds of 50 bps and a tailwind of 170 bps from the revenue growth and operational efficiency. The effective tax rate for the quarter is 24.3% as compared to 26.6% in Q3 and for the full year it is at 25.9%. Net Forex gain for the quarter is US $2.3 million. Profit after tax margins for the quarter is at 15% as compared to 16.1% in Q3. PAT is absolute terms is US $43.3 million resulting in an earnings per share of Rs. 19.2 for the quarter as compared to Rs. 19.8 in Q3.

For the full year, profit after tax margin is 13.9%, an increase of 580 bps compared to FY20 and EPS for the full year is at 67.4, an increase of 76% compared to FY20. Our continued efforts in collections during the quarter led to the reduction of DSO by one day. For the quarter, the DSO stands at 60 days. EBITDA to operating cash flow is at 76.8% for the quarter and 120.5% for the full year. Free cash flow to EBITDA is at 68.5% for the quarter and 116.4% for the full year. Our utilization for the quarter is at 84.3% from 83.1% in Q3. Our contractual pricing for the quarter remained stable. Our order book for the quarter increased 20% sequentially and is at US $375 million for Q4. As of 31st March, our cash flow hedges are at US $996 million, hedges on balance sheet are at US $132 million and options at US $18 million.

The AAA rating upgrade from India ratings last month reaffirms our commitments to delivering stakeholder value based on strong operational principles. Our approach is to create value for all our stakeholders by balancing investment needs and return to stakeholders. The Board of Directors has recommended a final dividend of 175% that is Rs. 17.50 paisa per equity share of par value, Rs. 10 each. After including the interim dividend of Rs. 7.5 per share, the aggregate dividend for the fiscal 2021 amounts to Rs. 25 per share. ESG has been always a focus for Mindtree and reinforced in the Mission Statement. Mindtree leads across dimensions in ESG scores through conscious efforts over the years. We focus on themes such as energy efficiency, supporting education, disability, growing digital talent globally and a diverse and inclusive board. Our investor deck, annual report and sustainability report will carry the operating KRAs for FY21.

With continued positive impact on society, we undertake a holistic approach to refine the ESG and assign measurable impact metrics over the next few quarters. As a part of strategy refresh and focus areas, we will be reporting industry vertical, healthcare and realignment of few clients across industry verticals starting from Q1 of FY22.

I now hand over to DC to cover on demand and outlook.

Debashis Chatterjee: Thank you, Vinit. With our sustained growth momentum, we are confident about the opportunities ahead and the outlook for FY22. Clients appreciate the values that we create and recognize our ability to deliver transformational engagements. Our pipeline continues to be robust with the good mix of annuity deals. We continue to cross sell and up sell within and across our clients base, growing our order book 20% sequentially to US $375 million. Being mindful of the uncertainty introduced by the pandemic, we are geared up to respond to the increased opportunities and business traction. It is our endeavor to deliver double digit growth in FY22 while sustaining EBITDA at 20% plus levels. I now pass this back to the operator to open up to questions.

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 Sudheer Guntupalli from ICICI Securities. Please go ahead.

Sudheer Guntupalli: DC, quarterly revenue run rate in BFSI vertical has stagnated in the $50 million for almost 4 years now even before you joined. This is surprising given this vertical is on the forefront of digital adoption, and we actually take pride in the strength of our offerings in this area, so any structural problem that you had identified, be it in the Google market strategy so on and so forth which might be driving this revenue stagnancy and any steps you are taking to kind of address this issue?

Debashis Chatterjee: I think, it's not… there has been growth in BFSI from time to time, but specifically for this particular quarter, we were expecting certain closures which has not happened, which have been pushed to Q1 and apart from that, the Q4 weakness was a bit cyclical as well. As the budgets are getting firmed up, we do anticipate good momentum across our clients and especially in the areas of cloud and data security and DevOps**.** We are also seeing good traction in mid-tier banks. We are very hopeful that BFSI will be coming back in the coming quarters especially given the fact that some of the deals that we are very close to closing, they will start ramping up as we go along. I don't think there is any structural deficiency per se, but it all depends on the portfolio of clients that you have been having and as we go along I think our vision is to add more and more strategic clients, so as that happens, things will change, that is what we hope. Venu, do you want to add any additional color?

Venu Lambu: No, DC. I think one thing is, we are very focused is about getting the modest growth back in the subsequent quarters, but you are right, there are no structural issues, it is just getting the account mix right.

Sudheer Guntupalli: And my second question is, in FY21, overall the order book increased 12% odd and even when we are talking about at the analyst day earlier, you are confident that Mindtree will be delivering industry leading growth. Given the low base in FY21 for many companies, definition of industry leading can be as high as let us say high teens kind of revenue growth, so I am just trying to understand the bridge between the 12% increase in order book and high teens sort of the revenue growth expectation. Is that driven by the deal pipeline you are looking at for the first and possibly second quarter?

Debashis Chatterjee: Venu, do you want to take that?

Venu Lambu: Yes, I will take that. There are two aspects to that Sudheer. Firstly, yes, the order books that we did, not just for this quarter, even the previous quarter would start yielding the revenue as we complete the transition and so on. So that is one factor which will contribute to the industry leading doubt digit growth that DC mentioned. The second is, yes, our pipeline continues to be robust. We have a very strong pipeline and we are looking for some good closures that will add up to the incremental revenue addition for the year, so it is a combination of both, the orders that booked during the year as well as the new deals that is going to come up in the quarters.

Sudheer Guntupalli: The effort mix if you see, it has remained more or less stable on a sequential basis, so since travel has not yet started, intuitively we would have expected the incremental growth for this quarter to largely ramp up offshore like it happened for other companies, so just trying to understand why have it remained largely stable from previous quarter to this quarter?

Vinit Teredesai: No, I think so the mix of the demand and how we have engaged right now, there has not been any material change. As you rightly said, the travel has not yet picked up, so it has remained pretty much on the same line, so I don't think so there is any structural change that has happened in this particular quarter.

Sudheer Guntupalli: No Vinit, my question is, if travel has not yet started, so the incremental growth should have largely ramped up offshore, thereby ideally there should have been a little bit of a shift towards offshore which is what other companies are reporting, but in your case that did not happen, so I am just trying to understand?

Vinit Teredesai: If I can answer, this is again portfolio mix that you have, there are lot of transformational deals that we have commenced in the last two quarters and some of these transformations have to be, you need to have folks at onsite also. So it depends on the kind of engagements we have, so I don't think, there has been a significant jump to offshore in Q3 itself. If you go back to the last quarter metrics, there has been a significant jump in Q3, but I think what you are talking about was already achieved in Q3 and what you see right now is just to sustain the transformational engagement that we have started and there is also another component which you should know is, we have started the near-shore center in Poland, so those things also to be considered.

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

Vibhor Singhal: DC, just my question is on the deal flow number. We saw the deal flow for the quarter at decent 20% up sequentially, but on Y-on-Y terms, I think we still kind of fell a bit short and also I think as we look to chase industry leading growth next year as you mentioned, the deal flow appears to be a little bit on the softer side, I guess you mentioned that some of the deals that you were expecting in Q4 were not able to close, how does the overall deal pipeline look like and how can we actually basically look at this deal flow number grow in the coming quarter?

Debashis Chatterjee: I think the way to look at is, Vibhor, look at the full year, if you look at the overall order book right now, it is 1.4 billion and it is 12% growth over the last year. I mean there are always cyclical things in terms of specific client behaviors where some closures happened in this quarter, some will happen in the next quarter, but what we care about is overall for the full year, we are very happy with the order book that we have closed. As far as pipeline is concerned, I can only say that the pipeline in the company, the deal pipeline has never been as high as it is right now. In fact, the last two quarters, we have been having the highest deal pipeline, so given the very strong pipeline and given the full year order book that we have closed, we are very confident that the momentum that we have gathered in the last two quarters with 5% plus sequential in two consecutive quarters, we are very confident that we should be able to continue with that momentum and we have enough deals to fall back on. I don't know, Venu, you want to add any additional color?

Venu Lambu: Just one specific point is that, one is the growth in terms of actual order booking, the other dimension is also to look at the quality of the deals. The quality of the deal which has the larger duration than we use to have earlier, whether it is the longer duration transformation projects or multiyear engagements. That also helps us to get the accelerated growth. So one is the net increase, the other is also the quality aspect.

Vibhor Singhal: If I can just squeeze on one question to Vinit, you mentioned that we are looking at EBITDA margins of 20% plus going ahead, so just wanted to pick your brain on basically what is our take on the salary hike for FY22, is this going to be staggered or probably slightly back ended and taking that into account and that utilization is already at 84%, do you see multiple headwinds to the margins and probably impacting us to basically making difficult for us to achieve that 20% kind of number?

Vinit Teredesai: We have just now rolled out and completed our company first increment cycle. We have planned and factored in certain amount of selective increment that we will be needing to do as a part and parcel of our FY22 story that has been factored and I say that we will be able to sustain the 20% plus EBITDA margin. We have not yet made a decision in terms of when and how we will be doing that increment, but there is definitely certain amount of planning that is being already factored in.

Vibhor Singhal: And if all that taken into account, margins would look to be higher 20% is what you maintained?

Vinit Teredesai: Yes, that EBITDA margin of 20% is something that we are still confident of sustaining and managing.

Moderator: Thank you. The next question is from the line of Abhishek Shindadkar from Elara Capital. Please go ahead.

Abhishek Shindadkar: My question is on the client metric, now if I see the year-on-year growth movement in top 2 to 5 and 6 to 10 clients as well as the quarter-on-quarter growth, there seems to be that 2 to 5 and 6 to 10 is actually decelerating, now one of the reasons could have been that travel customers could be part of top 10 or may be top 20 and one of the reasons could be that, but the travel actually growth is accelerating, I mean the year-on-year decline is decelerating, so how should we understand the mix here, that is first question and the second question is on margins, now the improvement in 21, we saw almost 300 basis points of tailwind coming from lower travel cost, how much of that is sustainable or could come back in 22 if you can just answer that?

Debashis Chatterjee: Abhishek, let me just talk about the client metrics and if you see the client metrics, given the fact that we had quite a few travel clients within our top 20, it does look a little skewed so let me explain to you in a slightly different way. If I take my top clients, my top client has grown 29% year-over-year and if I take the 2 to 10, the next set of clients, there is a de-growth, but if I consider the travel and hospitality clients, if I take them out then there is a growth of 28% within the top 2 to 10, if I just leave aside two travel clients. Same way, if I just look at top clients and then take the 2 to 20,the next set of clients, there is a de-growth year over year, but again if I just take out the travel clients, we have a growth of 18% year over year. So the client metrics, essentially what I am trying to say is that the travel growth has come back in some areas, there are green shoots, but the base has shrunk significantly from where it used to be pre-COVID, so that will take and our expectation is that at least a couple of more quarters to kind of say that we are back on the growth, it may take a little longer as well, because it is not within our controls, but what we can assure you is that if I look at the remaining part of the portfolio, our vision of looking at the strategic clients, selling into the cross selling and up selling into the strategic clients and growing those portfolios, that strategy is working out extremely well, so that is what I would say in terms of client metrics how you should look at. I think overall the entire decline of travel, we have been able to manage to growth in the other accounts very well and that is the testimony of two quarters of 5 plus percent of sequential growth in two consecutive quarters. In terms of margin, yes, you are right, the travel has a kind of reduced, but there has been also a significant program that we launched almost 18 months back in terms of how do you look at overall margin improvements. So I would say that even when that travel comes back, I am not sure whether it will come back fully the way it was earlier and there are enough checks and balances and controls we have put in through a very rigorous process where we will always look at improving the margin as we go along. I don't know, Dayapatra, do you want to add any color on the margin?

Dayapatra Nevatia: Sure DC. So basically, like you rightly said travel has reduced even in the new normal. And few quarters back, the operational efficiency program that we have started with has been delivering good results for us and that is what is reflected in the margin growth for us, and we are very confident of continuing the focus on operational efficiency plus the growths that we are expecting next year. Both put together would ensure that we continue with 20% margin trajectory.

Abhishek Shindadkar: And just one follow up if I may, sir, you have guided in your press release for a double digit growth, now with the exit rate that we have and the booking number that we are talking off and the fact that large companies are providing number to the guidance, what is that is preventing you from putting a number for next year? Are you seeing any risk or there is some unknown that you want to kind of dig into the numbers?

Debashis Chatterjee: I think we normally don't provide numbers, but at least we are telling you we are very confident of doing a double digit growth. We are pretty bullish about that at this point of time.

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

Manik Taneja: Just wanted to pick your brains around couple of industrial trends, number one thing is that are you seeing clients becoming much more comfortable with offshore delivering and that is something that is obvious from the metrics, but are customers much more open to higher billing rates for offshore delivery with some overlap in US working time? That is question number one. The second thing is that we see on this journey of client rationalization, just wanted to understand where are we in that journey?

Venu Lambu: I think the first question just for DC's benefit as well I think it was, are we seeing any increase in the billing rate in offshore, right? I think we need to appreciate that most of the world economies are still under significant stress, so while lot of our customers are increasing their spend on the digital transformation, they need to cut their spend on the traditional IT services as well and they are not shying away from spending more and more to accelerate the digital transformation, so the basket size of the spend is increasing, but not necessarily the individual billing rate, but having said that, there are some specific skill sets where customers are showing a bit of willingness to pay couple of dollars extra for that, but in general it is not a trend that we see, in general the points on giving a cost competitive solution, giving solution which accelerates their time to market, those are bigger agenda, especially the time to market is the bigger agenda is what I see, so hence there is no specific trend to conclude that there is going to be an increase in billing rate at the moment. It is going to be steady and stable though.

Debashis Chatterjee: Just to add on what Venu said, I think there are also quite a few engagements where we are able to look at more of outcome based rather than just pure T&M kind of a scenario, so that also is something that we need to take into account and I think your second question was in terms of tail account rationalization, I think this is something that we talked about long time back that we want to focus on a few set of strategic clients and make sure that we can up sell and cross sell into those clients and build deeper relationship with those clients and that has been a strategy that we adopted and keeping that strategy in mind, we have also come out with this 4/4/4 where we have this 4 service lines which we felt a very relevant for digital transformation at this point of time, so overall the program is going on well. This kind of slowdown during the pandemic because we did not want clients to be inconvenient during the pandemic, but our view is that we don't want to rationalize a long tail at the inconvenience of our clients, we want to make it as smooth as possible and the second thing is, as we rationalize the tail, we also don't want to have any impact from revenue from our perspective. So keeping all those things in mind, I think it is almost 25 to 30% of the original number of clients which is the tail which we have already rationalized. So what you see right now, we are adding quite a few marquee logos very strategic to our growth, but at the same time, we continue to rationalize. Just to get the numbers, I think we rationalized about 70 clients in terms of this year, so that process will continue as we go along. Does that answer your question, Manik?

Manik Taneja: Yes.

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

Mohit Jain: Sir, two questions, one is on the TCV duration, if you could give some number for FY21 versus FY20. And second is now, of course no discussion is complete without top client discussion in Mindtree, so in the last 3 quarters, it is going little slower than travel actually in terms of incremental dollars added, which is contrary to the management commentary, so do you think this trend may sustain in FY22 given that we are at a very high base in top client versus travel vertical?

Debashis Chatterjee: Sorry, I didn't follow the second part in terms of top clients and travel, can you repeat that?

Mohit Jain: Top client in terms of absolute dollars incrementally added, top client is now growing at par or slower than the travel vertical in the last two quarters, so is this something which has to do with the base effect and therefore we should expect this to continue in FY22?

Debashis Chatterjee: I think what you need to understand is let me answer the second question first before I go to the TCV question. If you look at the travel growth that we had in the last quarter which is double digit growth for the last two quarters, the base is significantly shrunk, so I think there are green shoots and we have a good team, we have not lost any of the clients during the pandemic, so as and when the clients are coming back, we should be also going to do it, but I don't think that has got any specific relation to the top client, but the way I want you to look at this is that our vision is to grow the top client and we have grown the top client by 29%, but if you look at the overall client concentration of the top client with the overall revenues, last year Q4, it was at 23%, the previous year it was around 23%, it jumped up to 30% because we lost the travel portfolio because of the pandemic, but we closed that around 28%, so we want to grow the top clients, we want to grow the next set of 40 clients, but our belief is the strategy that we have laid out is the top client should continue to grow, but the overall revenue from a concentration perspective should gradually come down as we go along. Does that give you a flavor, Mohit?

Mohit Jain: Yes and on the TCV tenure?

Debashis Chatterjee: Yes, TCV tenure is, we normally don't talk about it, but I can only tell you that when we talk about TCV, there are deals that we closed which are multiyear deals that means when we talk about multiyear deals, there are quite a few deals that we have closed which are 5 years, some of them 3 years, many of them 5 years deals, transformation deals, so mostly are 3 to 5 years deals.

Mohit Jain: Sir, in the financial statement, there is a table which states transaction price allocated to remaining performance obligation, there are numbers year wise, so 1-3 years has gone up dramatically for instance, so does it to do with our longer tenure business that we currently are into?

Vinit Teredesai: I would say, I think I am just looking at that statement. It is to do with that.

Mohit Jain: So that could give us proxy of how we are moving ahead in the previous years?

Vinit Teredesai: Yes, you can look it in that way.

Mohit Jain: And it does not, by any means, signify any liability or something with performance obligation is not to do with how do we execute with the client?

Vinit Teredesai: No, you should not read anything beyond that in that.

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

Rishi Jhunjhunwala: A couple of questions, firstly, on the vertical performance right, if two verticals, one is BFSI is there, if you really look at it, even travel was hitting once you, but has started recovering sequentially, BFSI still remains a bit challenged, so just wanted to understand where are we facing issues within BFSI and on travel side, if we really look at on a year-on-year performance perspective specially from profitability side, our margins have gone up by almost 500 basis point from the corporate side, but travel has gone up from 12% point to almost 22% point and this is despite the fact that travel is down 30-40% year-on-year, so just wanted to understand whether, are there any one-off, reversal of pricing discounts or anything which have led to this significant surge and as a result EBITDA margin in travel gets normalized in FY22?

Vinit Teredesai: As you know that in the last year, when the pandemic did struck, there were few discounts that have been offered to few customers in the travel segments, those have now all vanished away and that is the reason why you are seeing the travel margins reflecting higher for the travel vertical.

Rishi Jhunjhunwala: Are these sustainable or these are like reversals which has happened and so margins will normalize a bit lower?

Vinit Teredesai: No, that is what I am saying. Last year, the margins were impacted because you gave some discounts. Now those discounts are not there and we do not anticipate these discounts to return back in the near future, so we do think that these margins are sustainable and may be even better as the growth kicks in at some point of time for the travel vertical.

Debashis Chatterjee: And Rishi on the BSFI we answered that some time back, but still in your benefit we were anticipating couple of deals which did not get close which got delayed and we are expecting closure in this quarter and as the budgets are getting firmed up with our BSFI clients, we see good momentum across the clients within areas of cloud, data security as well as DevOps and we are also seeing some good traction in the mid-tier banks, so we are expecting that BSFI also will revive in the coming quarters.

Rishi Jhunjhunwala: Just one last if I can squeeze in, if you really look at your breakdown from a delivery perspective, fixed price revenues have gone from 58% in 4Q last year to almost like 72% now for this quarter, so it seems like even large part of the renewals are also getting converted from timing material to fixed price, just wanted to understand, I mean how are the negotiations eventually transpiring from a margin perspective and are these one of the key drivers for the expansions that you have seen over the past 4 quarters?

Debashis Chatterjee: Absolutely spot on and I think it is our endeavor to look at how we can convert more and more multiyear annuity deals and as we do that, I don't think we will ever do anything to make it margin's annuity. That is not the intention over here, but I think our strategy of looking at more and more annuity deals which can give you a multiyear continuity is working out well and that is what we are focused on.

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

Dipesh Mehta: Couple of questions, first of all, I think you have covered BFSI in detail, but if you can provide growth outlook across other verticals, particularly TTH, TTH has shown some traction and I think you earlier alluded about some green shoots, how do you expect travel and hospitality would play out in FY22? Second question is for Vinit, now if I look, we have given salary hike and we added 1600 odd employees this quarter and if I look your employee benefit expenses, we will grew only 4% this quarter-on-quarter, so if you can help us understand what explains relatively lower incremental growth in employee benefit expenses, Q-o-Q?

Debashis Chatterjee: On the TTH, our view is that when this pandemic struck, this is one verticals which was the most impacted, we almost lost half of the revenues within two weeks of time, but the good news is we did not lose any clients, we have tremendous stickiness with the clients, we have been working with them for many years and we also did solid domain expertise in travel and hospitality, so given all these factors, we always knew as there is an opportunity for TTH to come back and if you look at some of the transformation that is happening right now, for example, contactless. Contactless, is something that is happening big way in TTH, whether it is a hotel, whether it is an airline and some of those initiatives, some of those transformation, we are participating in those. So I would say these are the early green shoots of recovery within TTH, some discretionary work which is going on and I don't think it has really come. We cannot say it has come back full stream, but if you ask me about how much time it will take to recover, I don't think, we have seen good recovery in the last two quarters in terms of green shoot, but we are at least a couple of more quarters away to see the levels that we want to see in terms of full growth, but our confidence comes with the fact that none of these clients have gone away from us and all these clients, the relationship that we have that is very robust and I think they also will rely on us as they come back we should be also able to grow along with them.

Vinit Teredesai: Dipesh, on your question on the salary hike and the overall cost increase, see one of the aspect also is to look at the overall growth that has happened. Our growth has been pretty robust, our utilization continues to remain at high levels. I have mentioned this in some of the past calls that we are stepping up now on hiring, so eventually this sort of utilization will not be sustained, the utilization will come down in the future quarters. We do intent to maintain a certain portion of bench which is healthy to cater to our growth in future and also in the current quarter, there has been a little bit of a immediate demand that has been catered through subcontractors and to that extent there is a slight increase in the subcontract to cost in this quarter, but eventually I would say it will all even out, yes, the talent cost is one of the constraints we have, but we do have sufficient amount of levers available in our system to manage the headwind that is coming in our way.

Dipesh Mehta: No, Vinit, my question was a bit different, let us say, if I look your salary hike and 1600 odd employee addition, your employee benefit expense would have grown faster, now utilization and other lever, what you are indicating it is revenue implication, but if I look absolute number of employee benefit expenses, that numbers would have grown, it reflects these two things, right, hike and addition?

Vinit Teredesai: Yes, and we continue to balance, we have to also look at. We continue to balance our pyramid also. We look at people who are also getting added at a fresher level and that also helps us in terms of managing our cost.

Dipesh Mehta: Is it possible to share some number about let us say pyramid 20 versus 21, how it has changed?

Vinit Teredesai: I would say, in the last year, our intake on our freshers' was significantly lower. We have increased that intake in FY21 and we anticipate that intake will be even more stronger in FY22, so we will continue to do that. We will continue to manage this pyramid and we will try to manage our cost within the defined parameters to ensure that our margins that ~~is~~ what we have claimed for are sustainability.

Dipesh Mehta: And last, I think earlier question was partly answered, RCM and CMT, I think you have not provided some color, how you expect them to play out?

Debashis Chatterjee: RCM and CMT are two verticals where we have been seeing good traction and the traction continues. We are very bullish on these two verticals.

Moderator: Thank you. The next question is from the line of Ashwin Mehta from Ambit Capital. Please go ahead.

Ashwin Mehta: The first part of the question was that our travel expenses on the quarter on quarter basis have almost doubled, so what explains that and the second one was on the subcontracting as to how do you see that trend going forward, whether it comes back to pre-COVID levels or not?

Vinit Teredesai: I will just clarify on the travel expenses, it is mainly the cost that we have incurred for the VISA applications that are scheduled to come up in Q1 of FY22.

Debashis Chatterjee: And on the subcontracting, I would say that it depends on the specific engagements and the deals and all those things, but our goal is not to keep the subcontracting ratio increase too much, so that cost should not be, so we expect that over a period of time, it will again come back to the extent that we wanted to.

Ashwin Mehta: Just a clarification in terms of the wage hikes for FY22, is the understanding correct that you are looking at more selective interventions and not full scale wage hike in FY22?

Debashis Chatterjee: At this point of time this is too early, but as Vinit has mentioned earlier, we are kind of keeping a very close eye in terms of what we need to do and when we need to do, but it is still the work, it is very difficult to comment details at this point of time.

Moderator: Thank you. The next question is from the line of Rahul Jain from Dolat Capital. Please go ahead.

Rahul Jain: Most of them have been answered, but I am sorry for probing further into the same topic which has been discussed. Sir, just 12% growth in the TCV, is it also from correlation of the kind of growth we are expecting, is it also benefited from the weak growth in FY21 which would have boosted our overall order backlog because the order book was strong in the beginning of FY21 also, so is that reason that can further give it fillip from a growth confidence?

Venu Lambu: If I understood correctly, you are essentially saying that the 12%, if I understood your question correctly, the 12% increase on the order book, is that giving us the growth confidence for the FY22, is that the question?

Rahul Jain: And I am saying, let us assume if we are looking for high strong double digit growth apart from this 12% growth in TCV that we start with this year, we also have some advantage probably coming from the last year order book, given that our revenues were soft in FY21, but we again had a strong order book at the beginning of that year which probably must be sitting in the order backlog itself?

Venu Lambu: It looks as I mentioned in the earlier question as well, it is a combination of both. The orders that you book for this current year, there is a revenue that flows into the next year as well, which is FY22, so that part is pretty much there, especially those multiyear engagements where you need to do transition, the steady state revenue starts kicking in after 3 or 4 months, so that aspect is there and the second aspect which will contribute to the FY22 growth is the orders that we will book in quarter itself over the next two quarters that we will book, so it is the combination of both because of which we are confident about the double-digit growth for FY22.

Rahul Jain: And just to understand our margin profile or that the expected margin little better in FY22, can you just tell us the top 3 headwind and tailwinds because despite a very high growth that we anticipate, we are expecting EBITDA margin to sort of stay flat and of course we have lot of savings that has come from the SG&A which will obviously come back to some degree, so any top 3 headwind, tailwind you want to quantify?

Vinit Teredesai: I think it is less of a headwind you know and I would say we have mentioned this in the past that we will continue to do our operational efficiency program, but most importantly now we had reached the stage whereby we want to reinvest lot of that portion into business to support the future growth, so I would say that the 20% margin what we are confident of is a reflection of that and you will continue to see. It does not mean on quarter-on-quarter, you will see that margins dipping down to necessarily 20% and some quarters, we may continue to deliver higher margins. The headwinds are in from the people cost and people and talent remains to be one of the headwinds, but at this point of time, we are confident that we have sufficient amount of machinery that has been geared up to tackle this headwind and deliver the growth that we are contemplating.

Debashis Chatterjee: I think the only thing I would say is, some of the cost that went up during the pandemic will come back, there is no doubt about it, but as Vinit rightly said, we have the machinery in place now and this is the program that we have been running for almost 6 quarters or more, which gives us the confidence that we have a good hold in terms of the operational metrics and as Vinit rightly said, our focus right now is how do you reinvest in the business, so that we can also continue the growth momentum.

Rahul Jain: So basically you don't see the percentage of sales basis much major movements coming into it, on an annualized basis, we are on a normalized cost, both for the employee as well as SG&A basis and there would be only very minor swing to that numbers because we are already working on these things for some time now?

Debashis Chatterjee: Yes, I would say that is what we will continue to strive on and continue to manage our employee cost and other cost in that range.

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

Nitin: Just a quick clarification, we have had may be all time hike kind of head count addition, just wanted to clarify this 7% of existing new head count that has come, that has come towards the end of the quarter and are they hire on the fresher side or lateral side, just wanted your thoughts on that?

Dayapatra Nevatia: So it is mix of both, freshers and lateral, so as you would have seen that we have a very robust demand and business is growing quite well for us and that is leading to lot of hiring in India as well as other geography, thus we have also started to do lot of proactive hiring to make the future demand as you know that talent position is quite tough in India right now. Every company is going after the same talent pool for certain skills and therefore we want to make sure that we have the right talent when we require them and hence lot of proactive hiring is happening. Next year also we will be doubling up our effort in terms of hiring both campus as well as lateral.

Nitin: And other part of the question was, have all these people or most of these people come towards the end of the quarter?

Debashis Chatterjee: I think it is fair to say that all those people came throughout the quarter, I don't think there's any…we have been ramping up fairly uniformly across the quarter.

Dayapatra Nevatia: We do hiring throughout the quarter and campus batch of course comes once or twice a quarter depending on when we are taking them on board for the training.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference back to Mr. Debashis Chatterjee for closing comments.

Debashis Chatterjee: As we focus on the execution of our 4/4/4 strategy, we will strengthen our position by targeted investments both organic and inorganic and the investments will be in building domain strength in industry groups and specifically in healthcare, increasing our geographical presence, strengthening our alliances and partner ecosystem, strengthening our unique culture and verticals envisioning and embracing the future of work. We will continue to invest in this critical competitive advantage as we work to lead the organization through the next phase of growth. As we enter FY22, we remain very excited about the momentum that we have. The positive impact we are making for our clients and our future-ready talents. We aspire to deliver double digit growth in FY22 along with 20% plus EBITDA margins and creating long-term value for our stakeholders. Thank you. Stay safe and be in good health.

Amisha Munvar: Thank you, everyone for joining the call and as always, we all look forward to speaking with you in the coming months. Stay safe, you may all disconnect the lines please.

Moderator: Thank you. On behalf of Mindtree Limited, that concludes this conference. Thank you all for joining, you may now disconnect your lines.