Syntel Participants

Bharat Desai	**Co-Chairman and Co-Founder**
Rakesh Khanna	**Interim CEO and President**
Anil Agrawal	**CFO**
Zaineb Bokhari	**VP, Finance**

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Syntel First Quarter 2017 Earnings Call. (Operator Instructions) As a reminder, this call is being recorded today, Thursday, April 20, 2017.

I will now turn the call over to **Zaineb Bokhari**, Syntel's Vice President of Finance.

Zaineb Bokhari

Thank you, and good morning, everyone. Syntel's first quarter earnings release crossed GlobeNewswire at 8:30 a.m. today. It's also available on our website at www.syntelinc.com.

On the call with us today, we have Bharat Desai and Prashant Ranade, Syntel's Co-Chairman; Rakesh Khanna, Syntel's Interim CEO and President; and Anil Agrawal, Syntel's Chief Financial Officer.

Before we begin, I'd like to remind you that some of the comments made on today's call and responses to questions may contain forward-looking statements. These statements are subject to the risks and uncertainties described in the company's earnings release and other filings with the SEC.

I'll now turn the call over to Syntel's Co-Chairman, **Bharat Desai**. Bharat?

Bharat Desai

Thank you, Zaineb. Good morning, everybody, and thank you for joining us today.

The environment remained challenging during the first quarter. The uncertainty we noted at the beginning of the year continues to impact customer spending plans. There's also a lack of clarity stemming from potential regulatory changes in key markets. We have seen this caution amongst our customers in the banking and financial segment, in particular.

In healthcare, the lack of policy clarity has led customers to put significant parts of their investment plans on hold.

But we have been working to grow our market share across our client base and had some strong successes along the way. Last quarter, we discussed additional investments in this area, so we're able to better partner with our clients on their key initiatives for the future.

Rakesh will provide additional details in his prepared comments on our progress in this area.

2017 is going to be a challenging year in terms of growth, but I'm confident that our teams have taken decisive steps to return Syntel to growth. Despite these developments, Syntel remains committed to our strategy of helping our customers succeed in an increasingly innovation-driven marketplace. We have a strong portfolio of digital capabilities to help our customers expand their market reach and robust modernization solutions to bring core technology investments into the digital world.

Our SyntBots automation platform is a powerful engine that greatly accelerates cloud adoption and the benefits realization and enhances the success of our clients' modernization initiatives. We have a clear strategy and an approach that is strongly aligned with the needs of our customers. Our leadership team has taken important steps to put our organization on a growth trajectory by investing and creating capabilities that will be strategic to our customers' future.

I would now like to turn the call over to **Rakesh Khanna**, Syntel's Interim Chief Executive Officer and President, to provide further details. Rakesh?

Rakesh Khanna

Thank you, Bharat, and welcome, everyone. Before discussing our first quarter results, I want to provide some color on what we are seeing in our business. On our last call, we called out delays in budget finalizations as well as considerable spending scrutiny across parts of our customer base. This was fairly evident among customers in the Banking and Financial Services, including some of our large B&FS relationships and in the Healthcare segment. Budgets have been finalized and are down from the prior year.

In addition to this, we have seen a combination of project completions, decision delays and reductions. The added visibility we have at this time is leading us to lower our outlook for 2017. We performed a rigorous review of our customers' spending plans. As a result of this review, we believe our share of our customers' spend is stable and our positioning at our strategic accounts is very strong.

Digital remains a spending priority for customers. In addition, we continue to see interest in modernization of legacy systems and applications. The weakness we are seeing continues to be on discretionary work, particularly for traditional application development services.

I also shared our plan to diversify our revenue base and improve sales execution on our last earnings call. We expanded our account focus to 4 to 50 and plan to expand executive coverage of these accounts to support deal activity and closures.

Since we last spoke, we have added client partners and engagement directors. We have also consolidated delivery to free up executive bandwidth in support of this expanded account base. Through a combination of these efforts, we have now broadened coverage across the entire top 50.

In addition, we continue to invest in sales and marketing with a plan to expand our client-facing personnel. At the same time, we continue to invest in new service offerings in support of our strategy to help customers drive to digital and modernize their core systems.

We are adding to our digital capabilities and using SyntBots automation to build value into our application management services.

The other part of execution is on the delivery side. To ensure world-class delivery, we are using scaled Agile automation, product engineering and making sure that our associates are ready and we are able to scale. Our efforts to improve execution will take time to bear results, but we are building a good pipeline and have market-relevant offerings. I'm confident that our strategy and the steps that I have laid out today will help us make steady progress towards a return to growth.

After taking into consideration everything we know about our business at this point in time, we now expect to see modest declines in revenue in each of the remaining quarters of 2017. Clearly, we are not satisfied with this trend, but I believe that we have the right team and a strong plan in place to help Syntel chart the course back to growth.

It will take some time to show the kind of progress we need to overcome the declines we expect this year. We will continue to share our progress with you each quarter.

Now, let's review our results for the first quarter. Syntel's first quarter revenue was $225.9 million, down 6.4% year-over-year and 5.1% on a sequential basis. As discussed on our last earnings call, conditions remained challenging during Q1 with uncertainty across several of our industry segments.

Discretionary spending remained weak during the first quarter amid soft macroeconomic trends, project completions and elongated decision cycles. At an industry level, we saw declines across our Banking and Financial Services segment in Q1, including some of our large B&FS customers. We continue to see weak spending in the Healthcare and Life Sciences Group, particularly among payers.

Ongoing policy uncertainty is creating a fair amount of conservatism in spending plans. The pending M&A activity from the previous year has largely dissolved, but here, too, market participants continue to evaluate alternatives to support their business objectives. We are seeing better sales trends for the provider and life sciences subsegments.

Insurance segment revenue grew 6.1% year-over-year, led by the life and retirement area. We continue to expect measured growth for the Insurance segment in 2017, led by growth in the life and retirement subsegment. We expect a modest recovery in spend for personal lines while commercial lines look weaker. Retail, Logistics and Telecom segment grew 2% on a year-over-year basis. Finally, Manufacturing was weak in Q1 amid a slowdown in Manufacturing activity impacted by macroeconomic and cyclical factors.

Growth in Europe was impacted by delays around budget finalization and weakness in B&FS. In addition to this, we are seeing ongoing policy uncertainty related to Brexit, the recent triggering of Article 50 and other developments. We continue to invest in Europe and expect the region to be an important driver of growth over the longer term. However, based on the added visibility we have to the full year, we now anticipate growth from Europe to underperform overall company growth. Anil will expand on our Q1 metrics and 2017 outlook in his prepared remarks.

We estimate that revenue from digital projects accounted for approximately 18.3% of revenue in Q1, up from 15.8% in Q4 2016 and 15.2% in the year-ago quarter. We are seeing encouraging traction across a range of our offerings, including Big Data, analytics and IoT.

First quarter gross margin narrowed to 36.5% from 40.2% in the fourth quarter. This primarily reflects lower average utilization for IT. Offshore utilization for IT fell to 67.6% in Q1 from 70.9% in Q4 on a period-end basis. It fell to 67.6% in Q1 from 73.1% in the previous quarter on average. We still expect to drive utilization above long-term historical trends.

The mix between on-site versus offshore delivery was 24.3% and 75.7% in Q1 as compared to 24.4% and 75.6% in Q4. Net headcount decreased by 216 employees on a sequential basis to 22,795 in the first quarter. Hiring continues across each of our geographic regions tied to anticipated needs and requirements of our customers. Attrition, calculated on a current quarter annualized basis, was 20.8% in Q1, improving from 21.3% in Q4. We are pleased with our efforts to reduce attrition and are seeing good traction for Syntel X.0, our talent management and retention initiative.

I will now turn the call over to **Anil Agrawal**, Syntel's Chief Financial Officer, who will discuss Syntel's financial performance. Anil?

Anil Agrawal

Thanks, Rakesh, and good morning, everyone. After I conclude my comments, we will open the call for questions.

Syntel's first quarter revenue came in at $225.9 million, down 5.1% from the prior year period and 6.4% lower than the prior quarter. For the first quarter, Banking and Financial Services contributed 46.9%; with Retail, Logistics and Telecom at 17.9%; Healthcare and Life Sciences, 16.6%; Insurance, 14.4%; and Manufacturing, 4.2%.

On a year-over-year basis, segment growth was led by the Insurance and Retail, Logistics and Telecom segments, which grew 6.1% and 2%, respectively. Syntel's customer concentration levels were as follows: our top 3 clients represented 47% in the first quarter of 2017 as compared to 48.9% in the year-ago quarter and 48.3% in the fourth quarter of 2016.

Accounts. 4 to 50 represented 48.7% of revenue in the first quarter of 2017 as compared to 47% in the year-ago quarter and 47.6% in the fourth quarter of 2016. The fixed price component of our business was at 43.2% of revenue for first quarter of 2017.

With respect to Syntel's margin performance, our first quarter gross margin was 36.5% as compared to 37.2% reported in the year-ago period and 40.2% in the fourth quarter of 2016. By segment, gross margin for Banking and Financial Services was 37.1%; with Retail, Logistics and Telecom at 38.8%; Healthcare and Life Sciences at 38.6%; Insurance, 33.9%; and Manufacturing, 25.1%.

During the first quarter of 2017, the Indian rupee appreciated by 1.9% on average relative to the U.S. dollar from the prior quarter. This lowered gross margins by approximately 26 basis points.

Moving down the income statement. Our selling, general and administrative expenses were 13.4% in the first quarter of 2017 compared to 12.3% in the prior year period and 13.1% in the fourth quarter of 2016. On a dollar basis, SG&A was lower by $0.8 million sequentially. The impact on Q1 SG&A from currency-related balance sheet translations based on quarter-end exchange rates was a $1.6 million gain as compared to a $2.8 million loss recorded in the fourth quarter of 2016. The appreciation in the average rupee rate raised SG&A by $0.5 million.

Other expense was $2.9 million during the first quarter of 2017 as compared to $2.1 million in the fourth quarter of 2016, including a gain of approximately $0.2 million from mutual fund sales in the first quarter of 2017 versus a $0.3 million gain in the fourth quarter of 2016.

Our tax rate for the first quarter came in at 22.1% as compared to 23% posted in the fourth quarter of 2016. During the first quarter, we had a onetime reversal of approximately $2.1 million net in tax provisions.

Net income for the first quarter was $38.4 million or $0.46 per diluted share as compared to net income of $53.1 million or $0.63 per diluted share in the prior year period and net income of $48 million or $0.57 per diluted share in the previous quarter.

The company's balance sheet at the end of the first quarter of 2017 remained healthy. Our total cash and short-term investments balance on March 31 was $74.1 million, and the portion held in U.S. dollars stood at 52%.

DSO levels were at 56 days. Capital spending for the quarter was approximately $2.6 million. Syntel ended the fourth quarter with total headcount of 22,795, of which -- Syntel ended the first quarter with total headcount of 22,795, of which, 8,028 were assigned to KPO. Our global headcount was lower by 0.9% from the fourth quarter. Our billable headcount was 4,343 on site and 16,747 offshore, for a total of 21,090.

Utilization levels at the end of the quarter were: 93.6% on site; 75.7% offshore; and 79.4% globally. Our delivery mix at quarter end was 24.3% on site and 75.7% offshore. Voluntary attrition during the quarter was 20.8% as compared to 21.3% reported last quarter. Syntel added 3 new customers in the first quarter.

Looking forward, I would now like to provide you with guidance for 2017. Based on our current visibility levels, Syntel expects revenue to be in the range of $855 million to $900 million and earnings per share to be in the range of $1.57 to $1.77 for the full year of 2017. The company currently has 81% visibility to the low end of the revenue range, and our guidance is based on an assumption for an average exchange rate of INR 64.5 to the dollar. We anticipate that operating margins will be in the 22% to 24% range.

Our effective tax rate will be in the mid-20% range for 2017, and CapEx is expected to be in the range of $15 million to $25 million. We will now open the call for a question-and-answer session. Operator?

Operator

At this time I would like to remind everyone that if you would like to ask a question please press star then the number 1 on your telephone keypad. To ensure that all of our participants have an opportunity to ask a questions, please limit yourself to one question and one follow up. We'll pause for just a moment to compile the Q&A roster.

Our first question comes from the line of **Ed Caso** of Wells Fargo.

Rick Eskelsen

It's **Rick Eskelsen** on for Ed. I'm just following up on your comments about the environment that you're seeing for client spending, particularly in the financial services vertical. I guess, just a little more clarity on whether the environment got worse, stayed the same or just didn't improve. And then just relate that to how it applies to your guidance. I was a little unclear of what exactly -- have things just didn't improve as you expected or if they've just kind of stayed the same.

Rakesh Khanna

Yes, Rick, the environment did get worse comparatively. We had called out weakness in the last call in February and as budgets got finalized, we do see reduction in budgets in the Banking and Financial Services vertical as well as in healthcare. And what we see now based on our 81% visibility of committed revenues, our outlook factors in all these changes and these reductions, all of that is baked into our guidance.

Rick Eskelsen

And then just following up, I believe, Rakesh, you talked about revenue declines throughout the course of the year, just clarifying that you're talking about revenue declines on a year-over-year basis and not a sequential basis.

Rakesh Khanna

We do expect revenue decline, modest declines in subsequent quarters, Rick. So again, like I said, if you look at the guidance, that pretty much reflects what I just talked about.

Rick Eskelsen

But revenue declining from the $226 million level steadily throughout the year or revenue declines versus the prior year?

Zaineb Bokhari

Let me take a stab at that. Rick, yes, in each of the balance -- remaining quarters of the year, we do expect modest sequential revenue declines from what we've reported here. Is that clear?

Rick Eskelsen

Yes, that is. And just help us then bridge the typical seasonality where you see Q2 and Q3 get better on a seasonal and sequential basis. Why is this year shaping up to be so much worse? Is it due to the budget declines that you talked about?

Zaineb Bokhari

Well, I think even last quarter, we were calling out for a deviation from the normal seasonality. And clearly, we have better information now that the budget cycle has been completed. And that update is what we shared in terms of what we now expect over the remaining quarters. But I think even last call, we were not expecting normal seasonal patterns to be at play for the year.

Operator

Our next question comes from the line of **Frank Atkins** of SunTrust.

Frank Atkins

Wanted to ask how much of the change in revenue guidance comes from the top 3 customers versus kind of 4 through 30, and are you seeing differences in the trends there?

Rakesh Khanna

Yes. Frank, we don't break that out. But clearly, we do see softness and a combination of reduced budgets, some projects coming to an end and macro headwinds impacting some of our large customers in the banking and financial segment. We do see weaknesses -- weakness in that area.

Frank Atkins

Okay. And then wanted to ask a little bit about the Insurance vertical. That actually held up well. What are you seeing from customers in that space?

Rakesh Khanna

Yes, that's a great point, Frank. We see a good traction in Insurance. And within Insurance, specifically around the life and retirement space, we are seeing good opportunities and projecting a modest recovery. In the personal lines and commercial lines, it will stay muted and there are some -- there is some, definitely, some lingering uncertainty in those 2 subsegments.

Frank Atkins

Okay. And then last one for me. As we think about this kind of revenue trend and the changes you've seen, is some of that driven by the shift towards digital? And how does that kind of impact your view on the pace of investments there, and also what might that mean for potential M&A?

Rakesh Khanna

So Frank, in fact, we are pleased with our digital growth. We had a very good growth and an increased percentage of digital revenues in Q1. This is really an outcome of the investments we've done in this area. The investments specifically in digital, coupled with SyntBots, the automation platform, is driving some of that growth. So we feel good about the long-term prospects. There may be some variability in digital revenues, but overall we do expect that to outpace overall company growth.

Bharat Desai

Yes, Rakesh, if I can just chip in. This is Bharat. Investments have been in creating intellectual property, in reeducating, retooling our workforce and also in some key strategic partnerships that we believe will be important for our customers' future. And we've made those, and we continue to be making those investments to -- and we're seeing benefits, as I mentioned in my prepared remarks, from that. And as far as M&A goes, it would be opportunistic.

When we see -- we continue to look for areas for investments. If we see if there's an area where we can extend our market reach, that's what we would act on. But it's very clear that our customers will -- are all preparing for a digital world and all our investments are geared towards helping them get just there. Thank you, Rakesh.

Operator

And our next question comes from the line of **Jason Rodgers** of Great Lakes Review.

Jason Rodgers

Yes, wondering if you could talk about any potential changes from the visa policy changes that are upcoming.

Zaineb Bokhari

Yes, I'll take that. We're definitely continuing to monitor the situation. I think from our standpoint, any rationale for applying for visas is driven by what our customer needs are and we stick to that. Our long-term business plan, which we've talked about in the past, is to evolve our model to make sure that the service delivery we're providing our customers is uninterrupted regardless of their geographic region. And so we continue to invest to support that particular aim.

Jason Rodgers

Any change in pricing in the quarter?

Rakesh Khanna

Yes. At the company level, Jason, pricing is stable. We do see a little pressure on the run-the-business side of the projects, which we mitigate through more of managed services and automation, which kind of offset some of the pricing pressure. But at the Syntel level, we do see pricing as stable.

Jason Rodgers

And at this point, what percent of total corporate revenue would be considered recurring in nature?

Rakesh Khanna

Approximately 2/3 revenue would be recurring, Jason.

Operator

Our next question comes from the line of **Bryan Bergin** of Cowen.

Bryan Bergin

Just on the op margin guidance reduction, can you talk about how much that is, currency related versus pricing versus investments that you're making?

Anil Agrawal

So our operating margin is -- we don't break those operating margins between components. But it's a combination of the factors of INR appreciation as well as the investments that we continue to do and the normal factors. In our investments, as we said, we have stepped up on investments and client engagement and geography expansion, and we continue to invest in technology transformation and IT development. And we remain committed to running an efficient shop, delivering strong profitability.

Bryan Bergin

Okay. On your pipeline, outside of your top 2 largest clients, are you seeing that weakness in budgeting in the other clients as well? Or is it primarily concentrated in AMEX and State Street?

Rakesh Khanna

No, we are seeing a weakness in 2 areas, really like I talked about in the Banking and Financial Services as well as healthcare. And within healthcare, predominantly in the payer space, these are really the areas where we see some weakness and reduced budgets. We are seeing good growth, good opportunities in the Retail, Logistics and in Insurance. And like I said, we do expect measured recovery in part of the Insurance vertical.

Bryan Bergin

Okay. Last one for me on the digital revenue growth, nice rebound on that. Are you seeing that across industries or are there any that are more concentrated on the types of projects that are doing in digital? And then the number of clients that you're working on, these digital projects and as far as SyntBots' implementation is concerned.

Rakesh Khanna

Yes, we are seeing good growth across the verticals and predominantly the common areas where we see good opportunity is really around Big Data, analytics and Internet of Things. And our early investments in IT around some of these areas are really helping us fuel some of the growth. We saw a 10% sequential growth in the digital revenues. So that's really also helping us.

Operator

Our next question comes from the line of **Joseph Vafi** of Loop Capital.

Joseph Vafi

I was wondering if we could circle back to the guidance methodology. So just wanted to make sure, are we apples-to-apples from Q1 or from Q4 to Q1 at that 81% visibility?

Rakesh Khanna

No. What we've done is the methodology is consistent, but we've baked in -- because of the uncertainty around us, we've kind of increased the visibility metric. We are at 81% of committed revenues to guide to the lower end. This time last year, if you compare, we had used approximately 78% visibility. So we baked in these, the increased uncertainty and the volatility but the methodology remains the same.

Joseph Vafi

And was that the same from Q4 as well sequentially, 81%?

Zaineb Bokhari

So Joe, I'll take that. When we shared our Q4 results, the visibility at that time was 63%. So as budgets are finalized, that visibility steps up.

Joseph Vafi

Okay. But -- okay. So basically Q1 visibility, the methodology is different because of being further along in the budget cycle is what you're saying.

Zaineb Bokhari

Methodology is the same, but how we tweaked it is we set the visibility threshold a bit higher than we normally would. So as Rakesh mentioned, it's 81% this time around. The year ago it was in the upper 70%, 78%.

Joseph Vafi

Got it. And so how do you feel now about the conservatism, I mean, kind of given the guide down that we got here a little bit versus Q4 and being able to hold the guidance for the year?

Zaineb Bokhari

Yes, each quarter, we look at the information that we have and the plans that we discuss with our customers. And it's really a visibility-based assessment. And again, we've made some tweaks to incorporate some of the volatility that we see in the environment, the range is a little wider. So I don't think we -- at any point in time, we try to be overly conservative or anything like that but give you something that's tied to the visibility that we have.

Joseph Vafi

Okay. And then on your largest client, I think I heard you say that you don't think you're losing share there. It's really just a function of their spend. Is -- are there any areas where they're particularly not spending right now?

Rakesh Khanna

Yes. You're absolutely right. We have seen decline in spending, but that's definitely not unique to Syntel. We have very strong relationships. We have solid positioning in each of our large accounts. They're very strategic. We've been with them for a long time and also -- so clearly, we enjoy a good relationship market share.

But based on the macro headwinds that some of these customers are facing, and like I said, some of the project timing issue which came to an end, we do see some weakness and softness. And the macro headwinds are creating decision delays. We have a solid pipeline but some of those closures are getting pushed out because of the uncertainties surrounding some of these customers. And as soon as some of these headwinds are baked, we do expect to get growth back.

But it's going to be, at least, it's not going to be a very quick recovery. We do expect, like we talked about, modest declines in the next 2 to 3 quarters.

Joseph Vafi

Okay. And one last one for me. Do you feel that you have got an adequate base or adequate coverage now on the engagement manager or client manager side across the top 40? Or do you think you still need to be adding at the relationship level across those accounts?

Rakesh Khanna

That's a great question. And we continue to invest. We definitely improved the coverage in the first quarter. We've kind of now filled up all the roles from accounts 31 to 50 from a client partner engagement director, and that's what I talked about in my script where we have good coverage in Syntel's top 50 accounts. We see each of our customers, each of our accounts, as a growth opportunity. So we have good coverage.

Definitely, we've released executive bandwidth, more client-facing activity. But of course, some of these things will take time to yield results. But the foundation is getting stronger and stronger, and we continue to invest as we go along.

Bharat Desai

If I can just add to that, Joe. Listen, this is Bharat. We also plan to engage the leadership team significantly with the top 50. That would be Rakesh, Prashant and myself, along with our business unit, respective business unit heads and the engagement manager. We believe that these top 50 clients are great global brands. Our market share is very small compared to their overall spend.

It's also very clear that the medium- to long-term trend is going to be technology spend as a percentage of revenue increasing. So while we might have short-term headwinds, the long-term future looks very good and we are trying to align ourselves to be well-positioned for the long run with the right investments, with the right relationships, with the right clients.

Operator

Our next question comes from the line of **Joseph Foresi** of Cantor Fitzgerald.

Joseph Foresi

I wanted to be clear about demand in the top client. Were these projects canceled, delayed? Or is there a shift in the budget?

Rakesh Khanna

Right. Joe, again, we may not be able to make client-specific commentary. But like we said, in some of the larger relationships, what we see is a reduction in budgets. Now, our market share, we've been able to retain our market share and we've maintained the market share. But definitely, we do see reduced spend, especially in the discretionary area where there -- some projects are definitely getting pushed out.

Joseph Foresi

Okay. And then on the guidance, particularly on the top line, what puts you at the upper end of the guidance versus the lower end?

Zaineb Bokhari

Yes, I think -- so, we clearly have a pipeline and some of the close rates and some of the add-ons from some of those closures is going to help us get to the upper end. The lower end is, as you know, based on the committed revenue outlook.

Joseph Foresi

Got it, okay. And then the last one for me, just on your digital offering. A number of your competitors have digital offerings. I'm wondering, could you tell us what's different about your offering and how you're going to market there?

Rakesh Khanna

Okay. Great question, Joe. Clearly, we have differentiated offerings and we are not taking digital just as a front end point of front office kind of a system. See, what we've realized, Joe, the wave 1 of digital projects are almost done with where you had front-office capability, stand-alone systems.

Right now, to get more juice out of digital, we have to modernize the core. It's going to be very critical for us to help our clients uplift the technical debt that they have. And in many cases, they're competing with born digital competitors who do not have any technical debt, who are very fast to respond. So what we are positioned with our IT, with SyntBots, our ability to help them to modernize their core, which gives them more power on digital, that's really the strategy, Joe, going forward.

And if I may draw an analogy, if you look at a car, the 4 wheels, the front wheel is trying to drive at the speed of a Ferrari. But the engine and the other 3 wheels are probably a Fiat engine, which is slowing down the overall organization. So until you upgrade the engine, throw in lot more horsepower. It's not going to be able to drive the firm faster, and that's what we see as a strong, differentiated strategy where we talk about evolve the core, modernize the core and use digital to achieve more. That's really our calling card, Joe.

Bharat Desai

Yes, if I can also add some little color. This is the strategy we embarked on from -- at the very outset. And all our investments have been to create intellectual property for precisely this because we saw the technical debt reduction as a major opportunity for our customers to transform their business. And it's actually heartening, I think I made a comment, to see some early successes in this area. So we feel very good about this strategy, our investments and the opportunities in the future.

Operator

Our next question comes from the line of **James Friedman** of Susquehanna Financial.

James Friedman

I like that language, technological debt, Rakesh and Bharat. It's Jamie of Susquehanna. I just have a couple that weren't addressed. Insurance was good for you, too. You saw improvement. I think that's consistent with what you had called out late last year. So maybe if you could -- oh, no, I think you addressed Insurance in an earlier question, you didn't address retail logistics, and that also improved. If you could share some context about that vertical, that would be helpful.

Rakesh Khanna

Yes, absolutely. Thank you, Jamie. So we are really pleased with retail, the pipeline in retail, logistics, and what we are seeing there is more emphasis on really the mainframe modernization, right, some of those areas where we see good demand, modernizing the mainframe.

And because we have a good view, SME knowledge, we are in the boiler room. We've kind of maintained some of these systems for many years. Our ability to help them migrate to a different modern architecture puts us in a strong position. So we feel good about the opportunities in the RLT segment for Syntel, Jamie.

James Friedman

Okay. And then, Zaineb, I just had a question. I don't want to be too nitpicky, but previously you had trained us to look at the 4 to 30, I thought. Maybe I just missed -- but now you're saying 4 to 50, and again this could be my fault, but anyway if you could give us some context, did that change? And if so, why?

Zaineb Bokhari

Yes, absolutely, Jamie. So last quarter, and Rakesh laid out some of the steps that we were taking to reinvigorate growth. And if you go back about 5 years, we had a plan to expand our footprint across 3 to 30, which became 4 to 30. And in -- on our fourth quarter earnings call, we announced that we were expanding that account focus across the additional 31 to 50. So now the broader account segment, we've been working towards expanding our footprint there, doing some of the things that Rakesh highlighted in his prepared comments around expanding the engagement folks, the client partners, engagement directors.

Operator

Our next question comes from the line of Dave Koning of Baird.

David Koning

I guess, you mentioned about maintaining share over time, and I was just looking back at 2010 to 2015 when Q4 revenues typically averaged about 16% better than Q1. I know this year, you're guiding for Q4 to be down, let's just say it's 5% below Q1 levels for Q4. It just seems like such a disparity from historical kind of normal trends. And I was wondering, is there -- are we going to be surprised at all by one of your top 3 clients that there's a kind of a shock to the system over the next few quarters that, that's maybe part of the reason why? Or is it just a broad-based kind of the several factors you talked about that are causing sequential weakness?

Rakesh Khanna

Right. We talked about really a visibility-based forecast, right? We've used that consistently, to your point, in 2010, '13 and even now. So based on the pipeline visibility, based on the committed revenues, right, we kind of -- this is our view. This is our assessment of what we see.

And I already talked about 2 of our segments where we have concentration, right? We have large concentration in B&FS, banking and finance vertical, as well as healthcare. These are 2 of our large verticals where we are seeing decision macro headwinds, for example, even in healthcare, though there is an ACA repeal -- rather, lack of success of an ACA repeal, it's removed an immediate threat of policy change, but it's not clear what the next step is.

So that's causing uncertainty and that's causing customers to delay decisions, to run with tight budgets. If you see in healthcare, the enrollments has started slow at the beginning of this year. The Medicare costs have gone up. And again, this is bringing a lot of caution in the payer community to restrict the spend. And discretionary spend is getting pushed out. So these are really the combination factors what we see, where we are expecting modest sequential decline and not following seasonal patterns what we saw earlier. It's a new world. I mean, there's a dynamic change happening, right? A lot of volatility, a lot of uncertainty out there.

David Koning

Got you. And there's not a -- but I guess, part of my question is there's not a big change in -- like we shouldn't expect a huge gap between what the top 3 clients are doing and the rest of the business the rest of the year. You're not seeing something from State Street or AMEX or -- that's causing that to be a lot different than the rest of the business like causing part of the reason for sequential declines?

Zaineb Bokhari

So I think, Dave, we will stay away from any client-specific commentary as Rakesh indicated. We've been clear in terms of the broader trends we're seeing across the industry. B&FS and healthcare being fairly weak, Insurance showing some recovery this year. Those kinds of trends are kind of the high-level trends we're going to stick to.

David Koning

Okay. And then 2 quick other ones. Other expense, you mentioned $2.9 million in Q1. Is that probably stick around that level the rest of the year?

Anil Agrawal

So the breakup of the other expense, it comprised of interest expense of about $3.3 million and mutual fund gains of 200k and interest income of 200k. So we expect the interest expense to be about $3.4 million per quarter for the rest of the year and others, too, mutual funds we generate on (inaudible) because these are lumpy, and they may come over a period of time. So I would say you don't want to factor the interest expense of $3.4 million right now.

David Koning

Got you, okay. And then just the last one, just addressing -- somebody asked about margins, and I think it looks to us like the midpoint of the 22% to 24%, so if we use 23% margins this year, that's down 400 bps. The makeup of that seems to be 100 bps from a tough comp because the balance sheet gains last year, about 100 bps from rupee appreciation and then about 200 bps from core. Is that -- I mean, that seems like everything you've lined up, that's kind of the way it looks.

Anil Agrawal

Yes, I would say that, that is fairly right. But I would only say that SG&A, we continue to invest in our business. And right now, we expect the currency (inaudible) at steady levels. So as the revenue will grow up, if and when, we will see those benefits coming up.

Operator

Our next question comes from the line of **Vincent Colicchio** of Barrington Research.

Vincent Colicchio

Yes, Rakesh, I see that your KPO headcount grew 6% year-over-year. I apologize, but I don't have the sequential comparison. If that did grow, will that growth continue?

Zaineb Bokhari

So I'll just start that off, Rakesh. So I think that across each of the service lines, what we're doing is hiring tied to the business needs and looking at the future and investing there. But aside from that, Vince, we don't really give any kind of outlook in terms of where each of those are heading.

Vincent Colicchio

Okay. I assume that the increase reflects positive sentiment in the period that you hired people, right?

Zaineb Bokhari

Right. I mean, our hiring in general is tied to needs, demand, et cetera.

Vincent Colicchio

Okay. And then one other question. Well, you have strong differentiation with SyntBots, per your previous comments, I'm curious if any competitors have closed the capability gap over time.

Rakesh Khanna

Vincent, we believe we have a first-mover advantage. We were early to start. We were early off to the races. And even the analyst coverage, what we are getting the feedback from independent analysts, right, we are getting good reviews. Customers are really embracing and deploying this well. Close to 1/3 of our top 50 customers have already deployed SyntBots in different forms. I'm not saying everybody's using every single feature but clearly, we have a very good momentum, and services powered by SyntBots is doing very well. We are very pleased.

Vincent Colicchio

Okay.

Bharat Desai

Good to know, I think great question, if I can just add a little more color. So what we are talking about today is the product as is and the ecosystem because it has almost over 350 different components, several of which we've already obtained patents for, a number of others that we've applied for patents. And that repository of assets will continue to grow.

So not only are we, I think, best-in-class in terms of capabilities today and a number of independent third parties as well as customer evaluations from some really strong global brands attest to that but we also have a strong vision for the future. We have a very clear path to where we want to take this, and our teams are working on that path. So that is what our strategy is.

And customers are embracing this, not quite at the speed at which we thought they would. They're sort of crawling before they walk and walking before they run, and most of them today are at the crawling and walking stage. But when we look at the brands that want to engage with us on this, it gives us confidence about our direction and optimism for the future.

Zaineb Bokhari

And if I could just add one thing, Vince. I think I misheard part of your question. You were asking about sequential growth for KPO, it was about 4%. Headcount, KPO headcount. Thank you.

Operator

Our next question comes from the line of **Brian Kinstlinger** of Maxim Group.

Brian Kinstlinger

Can you talk about how many customers in your top 30 are up year-over-year in the first quarter? And if you don't have the exact number, maybe anecdotally, is it 1/2 of your customers up year-over-year? Is it 1/3? Maybe just some sense for that top customer base?

Zaineb Bokhari

So Brian, I think we've moved away from talking about some of that. The breakdowns that we do give is across top 3, 4 to 50. And I can certainly share those with you. Top 3 as a group were up -- sorry, down 10% year-over-year, while 4 to 50, down about 3.1% on a year-on-year basis.

Brian Kinstlinger

Well, then, I guess, you give us the top customers so -- and that was down almost 25% year-over-year, so are the next 2 customers also down? It implies at least one of them is down because I'm not -- I'm curious if it's both.

Zaineb Bokhari

Yes, I mean, look, if top 3 is down less than our top, then it would imply that there was some growth in top 3 as well from the other customers.

Brian Kinstlinger

Okay. And then I may have missed it. I had to hop for 1 second. But are there expected changes in the headcount given the expected declines in revenue sequentially?

Zaineb Bokhari

I think we want to stay away from providing outlooks around headcount but I think the general trend that we shared in the past is still the case, that we continue to expect that revenue growth over the long term is going to exceed headcount growth. In addition to this, we utilize our SyntBots platform and managed services and expect to drive to higher utilization. Those comments stand.

Brian Kinstlinger

Okay. Lastly, if I take a look at the industry and then Syntel, I'm trying to think about how Syntel is investing to differentiate. I know everyone's into digital and focusing on that and to some degree, automation, too. But how can Syntel differentiate to further penetrate, in your view, outside of increasing sales coverage to its top 50 customers?

Rakesh Khanna

Right. See, Brian, our trend is we have what we call expertise, which is what I would categorize as an inch wide but a mile deep. So in our areas, for example, in B&FS, we are not all over the map. We are specialized in cards, payments, capital markets, and some parts of wholesale banking. We have very, very deep domain expertise in some of these areas.

And we feel that, plus knowledge of our customers' businesses, plus the relationships and the investments in IT and our people, we have this state-of-the-art performance management system. We launched Syntel X.0 to really equip the entire workforce to up-skill themselves on the New Age skills rapidly. Things like that.

These are our investments over and above, like you correctly talked about, the sales and client partners and the client activity. So in addition to that, these are some of the things that we are investing in, which we believe has generated sticky revenues for us, has enabled us to maintain share. And that's been probably our differentiator.

Operator

Our next question comes from the line of **Anil Doradla** of William Blair.

Anil Doradla

Clearly, Syntel is going through a transformation. Some of it is driven by internal, some of it is driven by market forces. So in part, have you guys thought about, on the next 12 to 24 months basis, putting out some milestones and metrics for us on the Street to kind of get a better sense of how well you're executing on your transformation?

Some things are out of your control, we get that. But it would really help us if you put out like 3, 4 metrics that would show that you're moving towards certain goals or certain targets, so would love to hear some thoughts on that.

Bharat Desai

So I think that's a good question. Let us reflect on that. We have some -- a road map laid out on how we measure ourselves internally. We will reflect on your question and discuss it internally and then come back with a response.

Anil Doradla

And I strongly agree -- I strongly believe that's good because when you put it out in public, it will hold you guys against -- to that standard and put some level of discipline even internally. That's what we typically see. Right now, if you look at all the questions, it's about trying to grapple how this story is going to inflect over the next year or 2. So I really believe that would be something that would help us on the Street.

Bharat Desai

No, we really appreciate that feedback and that perspective. Thank you for that, Anil.

Operator

Our next question comes from the line of **Puneet Jain** of JPMorgan.

Puneet Jain

Could you see plans for investments in front-end sales and account management, but do you also need to invest in your services and solutions that your current service mix, particularly in digital areas, enough to help you maintain share and maybe grow over the next few years?

Bharat Desai

Let me take that. So Puneet, I think that is always the first area of investment for us. And there are absolutely no compromises on -- in making investments and services that are critical to the future of our customers. If you look at our entire investment in intellectual property creation, that reflects exactly that. So we never hold back on anything that will shape our future.

So I just wanted to lay that out, and we may make conscious decisions on staying out of certain areas, such as sort of the front-end digital capability which was much more marketing oriented, that was a conscious decision that we made to stay out of. There may be other areas that in the past we made a decision to stay out of, but once we are clear about our strategic plan, then we make whatever investments are necessary to secure our future and to help our customers bridge to that future.

Operator

That is all the time we have for questions today. That concludes the question-and-answer portion for today's call. I'd like to turn the call back over to **Rakesh Khanna** for closing remarks.

Rakesh Khanna

Thank you, Operator. I want to close today's call by thanking Syntel's employees for their contributions. I look forward to updating you on our progress on our next quarterly call. Thank you.

Operator

Thank you. This concludes Syntel's first quarter earnings call. A replay of today's call will be available until April 27, 2017, by dialing (855) 859-2056 and entering the passcode, which is 3045483. Thank you, and everyone, have a great day.