Syntel Participants

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

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Syntel Third Q2017 earnings call. At this time all participants are in a listen-only mode. Later we will conduct a question and answer session.

At that time if you have any questions, you need to press star then the number 1 on your telephone keypad to place your line into the question queue. If you would like to withdraw your question, press the pound key.

As a reminder, this call is being recorded today, Tuesday, October 17, 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 third quarter earnings release crossed Globe Newswire at 8:30 a.m. today. It's also available on our Web site at www.syntelinc.com.

On the call with us today we have Bharat Desai and Prashant Ranade, Syntel's co-Chairmen, Rakesh Khanna, Syntel's 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. I am encouraged by the progress we've made in stabilizing our business. During the third quarter, we saw positive momentum resulting from our efforts to strengthen our offerings and deepen our engagement across our top 50 client relationships. We are pleased to see our incremental share growth with clients 4 to 50 and believe there is lots of opportunity for Syntel to create significant value for these clients through our offerings. There is clearly more work to be done and our teams are working hard so Syntel can return to growing faster than the overall industry. In order to achieve this goal, our leadership will continue to take a very focused approach, making strategic decisions based on our clients' most critical needs. This is the primary consideration when we invest in new capabilities, build software tools, improve the scale and efficiency of our delivery organization, and cultivate an innovation-focused mindset across our global teams.

Technology has helped level the playing field across almost every industry. Competitive advantages built over decades are fading as digital natives demand goods and services tailored to their lifestyles. Market differentiation is increasingly short-lived as agile competitors leverage their flexibility to displace and disrupt established brands. Legacy computing platforms are being overwhelmed by the demands and expectations of digital customers. Enterprise clients are seeing a critical need to embrace platforms that provide agility, flexibility, scalability and enable real time decision making. The need to keep pace with these shifts has driven companies to evaluate critical systems and applications for modernization.

Challenges like these have guided our investment in intelligent automation, automation-powered modernization, and cloud enablement. Our focus is on helping our customers streamline their critical application and infrastructure layers, support always-on availability for digital services, reduce technical debt and accelerate time-to-market. Syntel is committed to helping our customers innovate faster, enhance their competitive positioning, expand their reach and grow share.

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

Rakesh Khanna

Thank you Bharat and welcome everyone. Before discussing our third quarter results, I'll provide an update on some of the important trends we are seeing across our business. The environment has not changed materially from what we have highlighted on our past calls. Customer spending remains below year ago levels, particularly for discretionary areas. Uncertainty has been a persistent theme in 2017 to date and continues to impact decision cycles. We expect this to continue as we enter the fourth quarter. Specifically, the Banking and Financial Services segment remains weak and Healthcare payers are still hampered by the lack of clarity on domestic policy.

Despite some of these issues, our relationships with our strategic customers remain very strong. During the third quarter, we continued to make progress on improving sales execution. We are seeing some benefits from the actions we took to broaden coverage across our top 50 customers. Our positioning at these customers has improved from where we were at the start of 2017 and I am encouraged to see growth for the 4 to 50 customer segment exceed overall company growth. While there is more to be done, our entire team is focused on returning Syntel to a growth path. I am confident in our plan to realize this critical goal over time.

By industry, we continued to see healthy trends in our Insurance segment and in the Logistics and Life Sciences areas. In addition to this, horizontal services like digital continue to garner high interest. We also continue to build powerful new AI features into our SyntBots platform. Automation-driven services and modernization continue to deliver promising outcomes across our customer base. Based on everything we know about our business at this time and the greater visibility we have into the full year, we are raising our calendar 2017 revenue and EPS outlook.

Now, let's review our results.

Syntel's third quarter revenue was $231.3 million, down 4.1 percent year-over-year and up 2 percent on a sequential basis. Demand for traditional application development services remained weak in Q3, similar to what we have seen in earlier quarters.

By industry segment, we saw declines for Banking and Financial Services segment in Q3, including at a large BNFS customer. Retail, Logistics and Telecom segment was essentially flat on a year over year basis. We are seeing weakness in the Retail area while Logistics continued to show favorable trends. The insurance segment revenue grew 7.5 percent year over year. We still expect positive growth for this segment in 2017. Healthcare and Life Sciences grew 5.1 percent year over year primarily due to gains we've made in the Life Sciences area. Finally, Manufacturing was weak in Q3 as compared to a year ago with segment growth impacted by a slowdown in manufacturing activity.

European revenue grew 8.9% year-over-year. Some of this increase is attributable to the growth we are seeing in Insurance and Life sciences. However, there are still some headwinds in Banking and Financial Services segment in Europe. We continue to invest in Europe and expect the region to be an important driver of growth over the longer-term. Anil will expand on our Q3 metrics and 2017 outlook in his prepared remarks.

Revenue from digital projects accounted for approximately 19.1 percent of revenue in Q3, as compared to 19.9 percent in Q2 2017 and 15.5 percent in the year ago quarter.

Third quarter gross margin widened to 38.1 percent from 35.9 percent in the second quarter. Offshore utilization for IT rose to 75.4 percent in Q3 from 73.6 percent in Q2 on a period-end basis. It rose to 75 percent in Q3 from 70.3 percent in the previous quarter, on average. We continue to expect to drive utilization above long-term historical trends. The mix between onsite versus offshore delivery was 24.1 percent and 75.9 percent in Q3; as compared to 24.2 percent and 75.8 percent in Q2.

Net head count increased by 78 employees on a sequential basis to 21,928 in the third quarter. Hiring continues across geographic regions tied to anticipated needs and requirements of our customers. Attrition, calculated on a current quarter annualized basis, was 20 percent in Q3, as compared to 22.6 percent in Q2.

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 third quarter revenue came in at $231.3 million, down 4.1 percent from the prior-year period and up 2 percent from the prior quarter. For the third quarter, Banking and Financial Services contributed 44.5 percent, with Retail, Logistics and Telecom at 18 percent, Healthcare and Life sciences 18 percent, Insurance 15.3 percent, and Manufacturing 4.2 percent. On a year-over-year basis, segment growth was led by the Insurance segment, which grew 7.5 percent and Healthcare and Life Sciences at 5.1 percent.

Syntel's customer concentration levels were as follows: our top 3 clients represented 44 percent in the third quarter of 2017, as compared to 47.2 percent in the year ago quarter and 45.5 percent in the second quarter of 2017. Accounts 4 to 50 represented 51.7 percent of revenue in the third quarter of 2017, as compared to 48.2 percent in the year ago quarter and 50.3 percent in the second Q2017. The fixed-price component of our business was at 44.3 percent of revenue for third quarter of 2017.

With respect to Syntel's margin performance, our third quarter gross margin was 38.1 percent, as compared to 39.2 percent reported in the year-ago period and 35.9 percent in the second quarter of 2017. By segment, gross margin for Banking and Financial Services was 38.3 percent, with Retail, Logistics and Telecom at 42.3 percent, Healthcare and Life Sciences at 42.8 percent, Insurance 31.8 percent, and Manufacturing 25.7 percent. During the third Q2017, the average Indian Rupee rate was unchanged relative to the U.S. Dollar from the prior quarter.

Moving down the income statement our selling, general and administrative expenses were 11.7 percent in the third quarter of 2017, compared to 12.2 percent in the prior-year period and 12.7 percent in the second Q2017. On a dollar basis, SG&A was lower by $1.5 million sequentially. The impact on Q3 SG&A from currency-related balance sheet translations, based on quarter end exchange rates, was a $260 thousand gain as compared to a $3 thousand loss recorded in the second Q2017.

Other expense was $2.5 million during the third quarter of 2017 as compared to $2.8 million in the second quarter of 2017, including a gain of approximately $0.3 million from mutual fund sales in the third quarter of 2017, similar to the gain in second Q2017.

Our tax rate for the third quarter came in at 16.4 percent as compared to 26.7 percent posted in the second Q2017. During the third quarter of 2017 Syntel had a one-time reversal of approximately $6.3 million in tax provisions. This reversal positively impacted quarterly EPS by $0.07 per share in Q3.

Net income for the third quarter was $48.8 million or 58 cents per diluted share as compared to a net loss of $217.2 million, or $2.58 cents per diluted share in the prior-year period and net income of $36.7 million or 44 cents per diluted share in the previous quarter. The year ago net loss arose in connection with a special cash dividend and the one-time repatriation of cash for which the Company recognized a one-time tax expense of $271 million (net of foreign tax credits) in the third quarter of 2016, negatively impacting the EPS by $3.21 per share.

The Company's Balance Sheet at the end of the third quarter of 2017 remained healthy. Our total cash and short term investments balance on September 30 was $109 million and the portion held in U.S. dollars stood at 60 percent. DSO levels were at 53 days. Capital spending for the quarter was approximately $2.2 million.

Syntel ended the third quarter with total headcount of 21,928 of which 8,170 were assigned to KPO. Our global headcount was higher by 0.4 percent from the second quarter. Our billable headcount was 4,368 on-site and 16,108 offshore for a total of 20,476. Utilization levels at the end of the quarter were 94.8 percent on-site, 80.9 percent offshore and 83.8 percent globally. Our delivery mix at quarter end was 24.1 percent onsite and 75.9 percent offshore. Voluntary attrition during the quarter was 20 percent as compared to 22.6 percent reported last quarter. Syntel added 4 new customers in the third quarter. During the third quarter, we repurchased 875,435 shares for $16.1 million under the $60 million repurchase authorization announced on our previous earnings call.

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 $890 million to $902 million and earnings per share to be in the range of $1.81 to $1.88 for the full year of 2017. The Company currently has 99 percent visibility to the low end of the revenue range, and our guidance is based on an assumption for an average exchange rate of 65 rupees to the dollar. We anticipate that operating margins will be in the 23 to 24 percent range. Our effective tax rate will be in the low to mid 20 percent range for 2017 and CAPEX is expected to be in the range of $10 to $15 million. The projected EPS range does not factor in any share repurchases other than those completed though September 30, 2017.

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 question, 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 is from **Edward Caso** of Wells Fargo Securities.

Edward Caso

Congratulations here. Can you -- you've had five quarters now where your corporate overhead -- your corporate headcount has declined. Have you found the level here? Or is there further SG&A opportunity there?

Zaineb Bokhari

Yes, I'll take that. Hi, Ed. I think that there will be some variability on individual headcount line items. We don't generally provide any kind of an outlook for that. But I would say that we are running an efficient shop. And in some cases there will be opportunities where we can introduce process improvements and drink our own Kool-Aid on the automation side, so we're always looking for that as well.

Edward Caso

You had a particularly strong quarter year-over-year in Europe. I wonder if you gave us some more color. Is that in the life area or -- and then maybe tie that in to the strength in your gross margins. Thanks.

Rakesh Khanna

Yes, Ed, we had a strong growth in Europe. Primarily what we saw is really in the insurance and life sciences, and we continue to see weakness in the banking and financial segment in Europe. But overall, long-term, we do expect Europe to grow faster than the Company overall.

Anil Agrawal

On the gross margin, Ed, you know, quarter-on-quarter gross margin went up because there were several factors. Some of those, maybe those one-timer which we got our benefit on the H1s which we filed for Q2. That was one cost, and that we did not have in Q3. Another factor that provided the margin beef-up was the increase in revenues, supported by a high utilization.

Edward Caso

Great. Last question: digital revenue went down as a percent, sequentially. Is that just a noise factor? Or is that sort of a misstep on the offerings? Just some color there, thanks.

Rakesh Khanna

Yes, Ed, nothing specific to call out. In fact, we are very happy with the overall digital growth. And on a YoY basis for the quarter, we actually grew 18.2% on digital. Now, the nature of projects in digital are a function of lifecycle, timing; and at times, this can be lumpy. So, other than that, we are very happy with the digital growth, and we do again expect digital to grow faster than the company overall.

Edward Caso

Great. Thank you.

Operator

Our next question is from **Puneet Jain** of JPMorgan.

Puneet Jain

It seems that much of the weakness stems from your top client. And as you look forward, do you think you will continue to maintain your share at that account and grow at industry average rate in others?

Zaineb Bokhari

Yes, I'll just start that off; and if, Rakesh, you have anything to add. I think we provide the data on our greater-than-10% customers in our filing. We will continue to point you there.

Rakesh, is there anything else you want to add there?

Rakesh Khanna

Thanks, Zaineb. Yes, Puneet, overall we feel good about the relationships at our large customer engagements. We've been with them for many years. We are deep inside the engine room. And despite budget cuts, we continue to maintain wallet share and continue to look for opportunities to grow. But, definitely, we have a good percentage; and we retain the market share in each of these relationships, Puneet, and we have very strong relationships.

Puneet Jain

Got it. And now that business appears to be stabilizing and heavy headwinds appear to be behind you -- so with that benefit of hindsight, what do you think went wrong over last four, five quarters? And how do you plan to avoid similar situation in the future, when growth rate was so much below others?

Rakesh Khanna

Yes. Puneet, I don't think we see material improvement in the environment in the banking and financial and segment. We continue to see macro headwinds impacting some of the clients, which is pushing out decisions, delaying purchase decisions, and so on and so forth. So we do not expect an improvement in the environment for the remainder of the year.

However, I do feel a lot better about our positioning in our top 50 accounts compared to a few quarters ago. I think our strategy is working well. We have invested in the right service offerings.

I talked a couple of calls ago about the investments we are making in increasing coverage in the top 50 accounts, and some of those the results are paying off. Of course, a lot more work to do. And it will take time to show results, but feel good about the directional improvement that we are beginning to see as a result of the strong strategy and the strong lineup of our marquee customers, Puneet.

Puneet Jain

Got it. Thank you.

Operator

Our next question is from **Jason Rodgers** of Great Lakes Review.

Jason Rodgers

It was good to see the year-over-year growth in accounts 4 to 50. I'm wondering if you expect that growth to continue going forward, and if you are taking any kind of price concession (technical difficulty) that growth?

Rakesh Khanna

Jason, no, we do expect 4 to 50 to grow faster than company overall, and we kind of -- we look at every customer as a growth customer, including the top 3, where we have very strong, deep relationships. But clearly 4 to 50 will grow faster. The velocity of growth should be higher. That's what we're focusing on.

In terms of pricing, we do see pricing as being stable. Some pressure on the lights-on work; but through managed services, through automation, we are able to offset the pricing pressure we are getting on that part of the business.

Jason Rodgers

And then, where are you now as far as your investments to greater penetrate accounts 4 to 50? Should we expect to see an increase in SG&A expense going forward through these investments? Or just -- if you could talk more about where you are in that process.

Rakesh Khanna

Jason, we have completed the coverage. We have good representation across the top 50 accounts. But it's an evolving, continuous process. I don't think we can ever say that we have arrived. So we continue to invest in the business. We see this as a strong lever of growth. And the investments that we have baked in -- it is baked into the guidance, so that's really the overall view.

Jason Rodgers

And then finally, you had nice sequential gross margin improvement in pretty much every vertical, although insurance -- it was a more modest increase, and it seems like gross margins there have been under pressure over the past year. I wonder if you could talk to that area. Thanks.

Anil Agrawal

Jason, the normal factors that can impact the gross margin -- the proportion of development and maintenance, and the mix of onsite / offshore, and the industry cycle underlying. So I would say the insurance GM is impacted as a combination of both these. And as we see change, we may see it moving in direction. But right now everything is baked into our guidance for 2017.

Jason Rodgers

Okay. Thank you.

Operator

Our next question is from **Joseph Vafi** of Loop Capital.

Joseph Vafi

Great results here. I was wondering if we could just look again at the largest customer. Looks like the contraction is decelerating on a sequential basis there, and if you could provide a little more color on maybe the mix there. Is it --

obviously probably some of the app development work has trailed off there. I was wondering if you are seeing weakness in maintenance at all there. Or is it mostly attributable to projects and application development trailing off? And then I have a follow-up.

Rakesh Khanna

Right, thank you. Overall, like Zaineb said, you will see a lot more detail in the filings specifically. And we do not talk about individual customers. But overall, I will reiterate: our positioning is very strong. We continue to retain our wallet share of the spend. And you are absolutely right: when there are macro headwinds impacting a customer, they will push out discretionary spend tied to development activity. And we are witnessing that as we speak.

However, the digital part of that discretionary spend continues to grow, continues to stay relevant. But the remaining stuff is getting pushed out, leading to more scrutiny on project decisions, and leading to decision delays.

Joseph Vafi

Okay, that's helpful. Thanks. And then on Europe, is the strength here coming -- just trying to get an idea of these customers that are potentially ramping now. Are they early in their ramps, or are they a little bit later in their ramps, meaning are they already towards the top of the 4 through 50 stack? Or where they lower and moving up?

Zaineb Bokhari

Joe, I don't think we… (crosstalk)

Rakesh Khanna

Yes, go ahead.

Zaineb Bokhari

I'm sorry. I'll just begin and turn it over to you, Rakesh. We haven't given that kind of granularity in terms of 4 to 50 by geography. But clearly, as Rakesh mentioned, some of the trends — the beneficial trends that we've called out in the US geography — we are also seeing in Europe. Insurance and life sciences, I would say, across both areas have been quite favorable for us. Rakesh? Nothing?

Joseph Vafi

Maybe if I could sneak one more in. On logistics is -- seems to be doing pretty well. Is there something going on there in the nature of the work, the type of technology that logistics-oriented clients want? Or is it just potential just strength in their end markets that's rippling through for more IT services demand? Thanks.

Zaineb Bokhari

To some extent, the underlying industry and its health is always going to be reflected in some of the business numbers that we report. But if you think about logistics, some of the growth is coming from offshore regions. The supply chain is becoming more complex. There is a demand for more visibility on things like package fulfillment. So these are all areas that can be supported by technology services. And we've invested in the area, and we feel good about our positioning in logistics.

Joseph Vafi

Thanks very much.

Operator

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

Joseph Foresi

Hi. I was wondering if we could talk a little bit more long-term. If we look at the top client, obviously the declines have been fairly difficult this year. Any outlook or any color you can provide us on 2018? Do you feel like the worst is behind you? And when will you have visibility on the top clients' budgets?

Zaineb Bokhari

So, Joe, I think, regardless of the client, we will provide commentary and outlook on calendar 2018 once our customers have moved further along in their budgeting cycles. That really informs our decision. And when we have some of that information by the time we provide our Q4 results, we will share that with you. But we base it on that information and associate a level of visibility with that. So, we will do that before we provide any outlook of that nature.

Joseph Foresi

Got it. And then on the utilization front, it moved up nicely. What can we expect from a short- and long-term perspective on the utilization side? Is this a fair level that's sustainable? Do you feel like the people who were on that large client account have been reassigned? Can it go up from here? Thoughts on that?

Zaineb Bokhari

Yes, I think that we are fairly comfortable with utilization at these levels. If you recall, for IT offshore utilization we've talked about, broad target, 60% to 80%. We're at about 75%, so we're in the range. So we're comfortable. And, I think that we have been talking for some time about driving utilization above trend, and that is something that you should expect.

Joseph Foresi

Got it. And then as your mix of business becomes more digitally focused and you look at your margins, I'm wondering, is there any way to think about that relationship? Is the digital work coming in at a higher margin profile or a lower margin profile? And how does that work through the numbers over the long-term versus the pricing pressure? Thanks.

Anil Agrawal

So, Joe, we don't break our margins into different segments of the work that we do. We break it down in the industry segments and I have given those break-outs in my prepared remarks.

Joseph Foresi

Okay, thank you.

Operator

Our next question is from **Anil Doradla** from William Blair.

Anil Doradla

Congrats from my end, too. So, a couple of questions. So clearly over the last 12 months you have embarked upon certain efforts, focus areas. Sales has been one. Sounds like 4 through 50, top 50, greater sales allocation is reaping some benefits. But beyond that, what would you say have been the key achievements over the last 12 months for you guys in terms of strategic shifts?

Bharat Desai

I can take that, Rakesh, if you like, and then you can add color.

Rakesh Khanna

Yes, please. Go ahead.

Bharat Desai

We made -- I'd say there are probably two significant developments I'll talk about. One is our focus on our top 50 clients. These are all customers that represent significant opportunity. We have strong relationships and we have very low market share, especially when you look at clients 4 through 50. So, the focus is one.

And then the second is, as we saw the world evolving, we aggressively made investments in automation. And that automation is in a wide range of areas, from IT operations to business operations to DevOps to cloud migration to legacy modernization. And I think the timeliness, extreme relevance of our offerings, and our focus, I think, are probably the key achievements we've made; and the team being aligned and focused on exactly these areas.

Anil Doradla

And as a follow-up, I know Zaineb said formal guidance for 2018 will be given out. But Bharat, from your point of view, based on these trends, based on the efforts you've embarked and the comments you've talked about in the 4 through 50, is there any preliminary, very high-level, qualitative color you want to share on 2018? Not necessarily guidance, or any color, but how you look at -- through your crystal ball, how you're looking at 2018 from your point of view?

Bharat Desai

Listen, there are a number of moving parts, so I think it's best that we stick to our policy of giving you that guidance during our next call. But we invest where we see clients' critical need matched by our capability and opportunity. And our team is working very hard to return to what Syntel's focus has always been: to try and grow above market. So, we've made a beginning; we still have some work to do there.

Anil Doradla

Very good. Best of luck and congrats.

Operator

Our next question is from **Frank Atkins** of SunTrust.

Frank Atkins

Wanted to ask about the workforce. Unlike some of your peers, you guys have really invested organically in your workforce. How do you feel you are in terms of positioning, in terms of skill sets, and the professionals you have? And if you could comment a little bit on the hiring environment, that would be great as well.

Zaineb Bokhari

Yes. Let me just start with the last part, which is the hiring environment. There's not a great deal of change in terms of what we see offshore and what we're seeing where it's a bit tighter in onshore markets. But I think that starting in 2015, we started talking about the workforce and our long-term goals.

As we saw the market evolve end the skill sets changing and everything is becoming digital, we certainly embarked on something that we're still focused on, which is building a workforce that has the right skills that are going to be relevant to fulfilling those customer requirements, meeting those needs.

And so we have announced a couple of initiatives in support of that, including Syntel X.0 which, by the way, has been very well received across our employee base. We've seen widespread adoption. And so the engagement levels are there. And it really empowers our employees to take control of their careers; encourages them to re-skill, up-skill. So that's the journey we have embarked on. It's something we are going to be working on continuously.

Frank Atkins

Okay, great. And can you talk a little bit about seasonality moving from 3Q to 4Q? Especially on the margin side, either gross margin or SG&A, anything we should think about in terms of that quarter-to-quarter seasonality?

Anil Agrawal

Frank, I would say that we have baked everything on both seasonality and the things into our guidance. And the gross margins will be between 36% and 37% for the year, and operating margin will be between 23% and 24%.

Frank Atkins

Okay, great. And can we talk a little bit about M&A? Historically, the Company has been very organic growth focused. Many of the peers are doing a lot of M&A for either capabilities or talent or relationship. As you've come in, Rakesh, is there any change in view on the M&A landscape?

Rakesh Khanna

Frank, we continue to examine opportunities really where we see a tuck-in for a capability or a geographic expansion. But as you correctly pointed out, our strength has been we've been a very strong organic growth kind of a company. But we definitely keep looking if there is something compelling, and we continue to look around if there's a good fit. So that's the approach, Frank.

Frank Atkins

Okay. Good job on the quarter.

Operator

Our next question is from **James Friedman** of Susquehanna Financial.

James Friedman

Thank you for taking my questions. I'll just ask one short-term and one long-term as my follow-up. I'll ask them both at the same time. Maybe the long-term one is more for you, Bharat.

When I look at the short term, though, the sequential guide for the Q4, it is still down: down 6 to down 11, which sequentially would be a deceleration to the downside. And I'm just trying to understand if there's something contemplated in that Q4 sequential, either furloughs, et cetera. That's sort of the short-term.

And then the long-term, Bharat, I'm just asking this because you kind of went this way in your previous answer. But when I look back at my model, which goes back to 2003, the margins of the Company have varied from as high as almost 30%, 32% to as low as 19%. Maybe in some years you were over-earning, some years you were under-earning.

You mentioned automation in your response to the last question, Bharat. Where are we in this journey? I realize long-term questions are hard. But you do have Infosys and Cognizant out with three- to four-year type guides. There's a big difference between 19 and 30. So being that you're… is automation good or bad for your margins longer-term? I guess those are my two questions. Thank you.

Bharat Desai

Great. While I contemplate the tough question, I'll let the team answer the easy question.

Rakesh Khanna

Thank you, Bharat (laughter). Jamie, from short-term, we are looking at a furlough from a few of our customers, and we've kind of baked some of that in our outlook. And that's really -- at lower end, we have 99% visibility of committed revenues to the lower end of the guidance. But we do expect some furlough in Q4, which is reflected in the range.

So, Bharat, over to you for the difficult question.

Bharat Desai

Yes. So I don't think anybody can -- it's a great question, Jamie, and we've asked ourselves this question many times. And I don't think anybody today in the industry is smart enough to know which way the margins of the industry will go when you bundle automation and services, because you'll always be in a competitive environment. You, of course, would want to capture more of the value -- a service provider would want to capture more of the value that they're creating. And there's always that -- the customer is pushing to try and capture that as well, so there will be a healthy balance, and we'll know in a few quarters which way that's trending.

As far as our performance on operating margin, I think that's what you were referring to. We focus on making the investments necessary to run our business. We focus on areas, on both short-term and long-term investments that will help our customers be successful. And we try and run our business smartly, with some forecasts. And then the margin but ends up being where it is. And sometimes it's been high, and sometimes it's been low.

But I feel that — if we had a business that grew above industry rate and could generate north of a 20% margin, that's a great business for someone to own. And if we can execute better in some quarters, and we do better, that's what will happen. So, that's kind of my answer.

James Friedman

Thank you, that's helpful.

Operator

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

Bryan Bergin

Can you comment on your pipeline in the 4 through 50 base? Just this time now versus last year or in recent quarters, anything quantitative on scale or maturity that you can provide there? Just trying to parse the comments of returning to growth over time.

Anil Agrawal

We don't break our pipeline into the different segments of customers. And as we follow our regular guiding methodology, today we see a 99% visibility to the lower end of the guidance. Having said that, as Rakesh alluded about, that we are seeing 4 to 50, which we expect to grow faster than the Company.

Bryan Bergin

Okay. On healthcare, can you comment what you are seeing specifically with the managed care providers? Has there just been any incremental change now in behaviors, since seems repeal/replace legislation has failed? And then just on the life science growth that you commented on, can you talk about the type of engagements you're winning there?

Rakesh Khanna

Yes. In terms of healthcare, due to the policy uncertainty, we are again seeing weakness in the payer community. But then among the projects that we're doing, it's really more what we see is around the consumer-patient engagement, more focus on wellness and clinical aspects, and also on data and analytics. Across all industries, data is the new oil. If you see, most companies want to monetize data and give insights back either to their B2B customers or B2C customers. So clearly that's one area. Overall at the digital level, across all the segments, we are seeing a good uptick.

On the life sciences, because of the patent cliff, we definitely see taking cost out initiatives by some of these companies; and also the digital initiatives in clinical commercial areas; and also the medical device regulation. So these are really the focus areas, what we are seeing in healthcare and life sciences.

Bryan Bergin

Okay, thanks. And then last one, just on automation. Any notable changes you are seeing in client adoption there, or changes in contract behavior? And then just a sense of the share of your portfolio now that's employing SyntBots. Thanks.

Rakesh Khanna

We are getting a very good response to SyntBots. We believe we are early movers. We have a first-mover advantage at least for the customers where we have implemented have given very positive responses. Over one-third of our top 50 customers are in various phases of implementation. And like Bharat hinted earlier on, it's early to link it to revenue and margin. But clearly we are seeing good acceptance, and it's resonating very well with the customer base.

Bryan Bergin

Thank you.

Operator

Our next question comes from **Dave Koning** of Baird.

Dave Koning

Nice job relative to expectations. I guess I'm wondering, was there anything non-normal in Q3 to the positive side? And the reason I ask, and it's kind of a follow-up from an earlier question: your guidance on Q4 would actually imply about the biggest negative divergence from a normal Q4 of any quarter in the past long, long time.

And I'm wondering if you actually do expect it to be that much deterioration? Or if there was something in Q3 that was really good that just naturally makes Q4 trend a little tougher?

Anil Agrawal

So I would just like to draw your attention to the tax provisions. Because during the third quarter of 2017, we had a one-time reversal of approximately $6.3 million in tax provisions, which positively impacted our EPS by $0.07 per share.

Dave Koning

I just meant on revenue trends, just it would be -- I think it would be the biggest sequential revenue decline you've ever had in what's usually, historically a flat to even up Q4. It's just such a big difference from any normal trend. And it feels to me like you don't -- your momentum is actually pretty good right now, and you don't really expect it to be that bad. But I'm just wondering why you've guided to such a big deterioration.

Zaineb Bokhari

Yes. So, Dave, I'll take a crack at that. First, on your question about Q3 and any one-time things, I think we focused on some of the closure activity. As Rakesh mentioned, our positioning has improved. So we saw some movement to the upside in some of the areas that we have called out as strong, including insurance and life sciences.

On Q4, as Rakesh mentioned, first of all, there is some seasonal aspect to things where it's typically flat to down quarter. But in addition to that, there are headwinds that we're calling out in our business. We expect that to come through in Q4. And finally, Rakesh mentioned some of those furloughs that we've baked into the expectation. So it's a combination of those things that's shaping our outlook for Q4, for the full year.

Anil Agrawal

And just to add, our guidance is usually as a percentage of our visibility, and today we have a 99% visibility to our lower end.

Dave Koning

Got you, okay. That's helpful. And I guess the one other thing I noticed in the project account, like you give the number of projects every quarter. And it was a little below 100 this quarter, which I think we went all the way back to Q1 of 2008, and it's never been below 100 before. Is that at all a meaningful number? Like, are the projects just bigger right now, so it doesn't really correlate to revenue? Or is that something we should pay attention to?

Zaineb Bokhari

Yes, Dave, I would say that that's probably the case. We are clearly seeing some project completions and delays. We've been calling that out throughout the year. But I would agree, there isn't a great correlation between the number of new projects and quarterly revenue. And I think that is pretty evident, given where our Q3 revenues were versus the trend in new projects.

Because this is not a metric that we focus on all that much, and we don't see that correlation, we are looking at perhaps phasing this out as of the coming calendar year.

Dave Koning

Got you, okay. And then my last one just -- I know you don't want to do any guidance for next year on anything operational, which I totally understand. Is there anything to suggest -- I know you said a mid- to high-20s -- or, no, you said low- to mid-20s tax rate this year, which could actually imply a higher 20s in Q4. Is there anything to that Q4 run rate? Or the last several years have been around 22%, and we shouldn't probably expect much divergence from normal?

Anil Agrawal

I would say wait for Q4 results where we will guide for the next year.

Dave Koning

Okay. Okay, great. Well, thank you.

Operator

Thank you. That concludes the question-and-answer portion of today's call. I would now like to turn the call back to Mr. Rakesh Khanna for closing comments.

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.

Operator

This concludes Syntel's third-quarter earnings call. A replay of today's call will be available until October 24, 2017, by dialing 855-859-2056, and entering the passcode, which is 98749553. Thank you.

