Syntel Participants

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

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Syntel Third Quarter 2016 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 conference is being recorded today, Thursday, October 20, 2016.

I would now like to 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, Syntel's Chairman, Prashant Ranade, Syntel's Executive Vice Chairman, Nitin Rakesh, Syntel's CEO and President, Anil Agrawal, Syntel's acting Chief Financial Officer and Rakesh Khanna, Syntel's Chief Operating 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 Chairman, **Bharat Desai**. Bharat?

Bharat Desai

Thank you, Zaineb. Good morning everybody and thank you for joining us today. During the third quarter, we continued to see growth challenges arising from three broad factors: soft global macro-economic trends, industry-specific headwinds and regulatory-related uncertainty in key end markets. The combination of these forces has created considerable uncertainty for our customers, resulting in decision delays, slower ramps of some existing projects and increased scrutiny of discretionary spending plans.

While there is improvement in some parts of our business, our overall growth has been impacted by this. Our teams have maintained a strong focus on supporting our customers during this challenging time with modernization and automation solutions to help manage the cost pressures many of them are facing.

Companies in every industry are struggling to stay ahead of competitive inroads by digital challengers that woo away customers with personalized offerings and round-the-clock service. Swift adoption by consumers and the dramatic rise in alternatives has eroded brand loyalty to traditional organizations.

Companies are struggling to broaden their presence across new channels while managing rising business complexity. Legacy systems significantly limit their agility that is critical for success in times of rapid technology and business shifts. Increasingly, large organizations are realizing that not addressing modernization of these critical applications and compute infrastructure will create an existential threat.

In responding to the changing needs of global corporations, the IT services industry is undergoing its own evolution. Automation is the next wave in the evolution of our industry as customers adapt to the demands of "going digital". Syntel was early to identify the importance of automation and invest in this area.

Since then, we've significantly expanded the breadth and depth of our capabilities and are seeing broader adoption for SyntBots across our accounts. This momentum is being driven by the compelling benefits our customers are realizing.

I am very optimistic about the opportunities this has opened for Syntel. As an indication of its confidence in Syntel's financial strength and careful consideration of the Company's long-term investment plans, our Board was very pleased to declare a $15 per share special dividend during the third quarter. This shareholder-friendly decision marked a significant return of value to investors.

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

Nitin Rakesh

Thank you Bharat and welcome everyone. Syntel's third quarter revenue was $241.3 million, down 4.9 percent year-over-year and 1.9 percent on a sequential basis. Market conditions were challenging during the third quarter; there remains a fair amount of uncertainty across global markets and across some of our industry segments. As Bharat noted, we are still seeing longer-than-normal decision cycles on discretionary spending, that has resulted in delayed project starts and slower than anticipated project ramps. While we had called out some of this before, conditions did not improve in Q3, normally a seasonally strong period for us. Deals that we had expected to close in second-half 2016 were pushed out further. Our teams are working to close this business and we have revised our full year outlook until there is greater clarity on the timing of these closures.

At an industry level, we saw weaker discretionary spending in our Banking and Financial Services segment as soft macro-economic trends and a lack of policy clarity in key markets created volatility in customers' investment plans. In Healthcare and Life Sciences, discretionary spending remains muted due to pending M&A and regulatory uncertainty related to the U.S. election cycle. We remain focused on broadening our portfolio of industry-specific solutions and offerings as we await the resolution of some of these headwinds.

There were definitely some green shoots during quarter as we saw further stabilization in our Insurance segment, including the personal lines area. Europe continued to outperform overall company growth, both in the U.K. and increasingly on the continent. Finally, customer response to our digital modernization and automation solutions remains positive and we are seeing that come across in our pipelines and conversions.

Syntel remains focused on becoming a global leader in digital modernization powered by SyntBots, our recursive automation platform. We recognize that companies are struggling to stay competitive as digital technologies have become mainstream. While most organizations have adopted front-end digital capabilities, the concurrent need to maintain aging legacy systems diverts resources and focus away from growth initiatives. The ability of organizations to introduce new services and offerings will be severely compromised without a disciplined modernization strategy, in a hypercompetitive marketplace. No industry will be immune as traditional barriers to entry and other advantages are disrupted by innovative new competitors with flexible business models that are unencumbered by this two-speed conundrum.

Syntel has invested in advance of this coming wave with robust solutions and a disciplined framework to help our customers modernize critical applications and infrastructure elements. We commit ourselves to our customers' success through managed services offerings and innovative self-funding proposals. Finally, to ensure strong execution of our strategic vision, we have optimized our organizational structure and worked to empower and amplify the talents of our global workforce.

Anil will expand on our Q3 metrics and 2016 outlook in his prepared remarks. During the quarter, our Retail, Logistics and Telecom, and Insurance segments grew on a sequential and year-over-year basis. In RLT, some of this growth came from the retail side as companies seek to fully integrate omnichannel capabilities, boost workforce productivity and respond to consumer preferences for innovative fulfillment options. Our insurance segment grew as we began to see improvement in the personal lines area in addition to the trends we've seen in life and retirement and commercial areas. Amid these early signs of stabilization, we continue to expect improving growth for the Insurance segment over the remainder of this year.

We estimate that revenue from digital projects accounted for approximately 15.5 percent of revenue in Q3, comparable to what we saw in Q2 and 14.2 percent in the year ago quarter. Demand for digital service remains strong, however, the continuing challenging environment for discretionary spending contributed to the trend we saw on a sequential basis.

Third quarter gross margin expanded 222 basis points to 39.2 percent from 37 percent in the second quarter, reflecting lower immigration and visa costs and an ongoing focus on driving efficiencies across our operations through the effective use of levers like utilization and automation across our service delivery. The mix between onsite versus offshore delivery remained fairly stable during Q3 as compared to Q2; however, there could be additional modest shifts in mix in future periods as discretionary spending starts to recover. Offshore utilization for IT rose to 73.4 percent in Q3 from 70.3 percent in Q2 on a period-end basis and to 71.3 percent in Q3 from 68.7 percent in the previous quarter, on average.

Net headcount decreased by 718 employees on a sequential basis in the third quarter, to 23,055. Hiring continues across each of our geographic regions as we work to closely align our organization with the future needs and requirements of our customers. We still expect revenue growth to exceed the pace of headcount growth as we manage our business efficiently, drive to higher utilization, and balance the mix of our service delivery between onshore and offshore locations.

Attrition, calculated on a current quarter annualized basis, was 25.4 percent in Q3, up from 23.2 percent in Q2. It is normal to see an uptick in attrition in the post increment period and since the pace of hiring will trail revenue growth for the foreseeable future, we still expect attrition to trend above historic levels.

Our focus remains on readying our organization for the demands of the digital economy. Our workforce transformation initiative, Syntel X.0 will play a critical role in talent management and retention of our workforce as we empower employees to take an active role in their career development. Through this initiative, we're providing clear roadmaps for career enhancement and empowerment to our employees and strongly aligning incentives to learning and skill development. X.0 will help our employees develop a solutions mindset with a strong focus on technology value creation through IP. This will enhance employee engagement and make our workforce AGILE, and help our customers excel in the digital economy.

Finally, I'm very pleased to announce that Syntel's Board of Directors has named Anil Agrawal as Chief Financial Officer and Chief Information Security Officer effective November 1st. Anil has built a strong track record over his 15 year tenure at Syntel, having previously served as Head of Corporate Financial Planning and Analytics and Head of Finance for the India operations for a number of years. In his capacity as acting CFO, Anil oversaw the payout of our recent special dividend.

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

Good morning everyone. I want to take this opportunity to thank Syntel's Board of Directors, leadership team and my team for their support and confidence. I look forward to working closely with all of you to execute on our strategic plans and drive Syntel to greater heights of success.

After I conclude my comments, we will open the call for questions. Syntel's third quarter revenue came in at $241.3 million, down 4.9 percent from the prior-year period and 1.9 percent lower than the prior quarter. For the third quarter, Banking and Financial Services contributed 48.1 percent, with Retail, Logistics and Telecom at 17.2 percent, Healthcare and Life sciences 16.4 percent, Insurance 13.7 percent, and Manufacturing 4.6 percent. On a year-over-year basis, segment growth was led by Retail, Logistics and Telecom and Insurance segments, which both grew approximately 1 percent.

Syntel's customer concentration levels were as follows: our top 3 clients represented 47.2 percent in the third quarter of 2016, down from 48.2 percent in the year ago quarter and 47.9 percent in the second quarter. Accounts 4 to 30 represented 42.9 percent of revenue in the third quarter of 2016, down from 43.3 percent in the year ago quarter but improving from 42.3 percent in the second quarter. The fixed-price component of our business was at 43.4 percent of revenue for third quarter of 2016.

With respect to Syntel's margin performance, our third quarter gross margin was 39.2 percent, as compared to 42.4 percent reported in the year-ago period and 37 percent in the second quarter of 2016. By segment, gross margin for Banking and Financial Services was 39.2 percent, with Retail, Logistics and Telecom at 41.2 percent, Healthcare and Life Sciences at 43.1 percent, Insurance 37.7 percent, and Manufacturing 28.5 percent. During the third quarter, the Indian Rupee appreciated by 0.22 percent on average relative to the U.S. Dollar from the prior quarter. This lowered gross margins by approximately 4 basis points.

Moving down the income statement our selling, general and administrative expenses were 12.2 percent in the third quarter of 2016, compared to 6 percent in the prior-year period and 7.4 percent in the second quarter. On a dollar basis, SG&A was higher by $11.3 million sequentially. The impact on Q3 SG&A from currency-related balance sheet translations, based on quarter end exchange rates, was a $1.8 million gain as compared to a $9.6 million gain recorded in the second quarter. The appreciation in the average rupee rate increased SG&A by $0.05 million.

Other income was $4.2 million during the third quarter as compared to $4.9 million in the second quarter, including a gain of approximately $3 million from mutual fund sales in the third quarter versus a $1.8 million gain in the second quarter.

Our tax rate for the third quarter came in at 413.5 percent, as compared to 24.2 percent posted in the second quarter. During the third quarter, we recognized a one-time tax of approximately $271 million, net of foreign tax credits, upon the repatriation of $1.24 billion of cash held by Syntel's foreign subsidiaries.

Net loss for the third quarter was $217.2 million or $2.58 cents per diluted share, as compared to net income of $77.7 million, or 92 cents per diluted share in the prior-year period and net income of $58.8 million or 70 cents per diluted share in the previous quarter.

The Company's Balance Sheet at the end of the third quarter of 2016 remained healthy. Our total cash and short term investments on September 30 were $88.4 million and the portion held in U.S. dollars stood at 58 percent. DSO levels were at 54 days. Capital spending for the quarter was approximately $6.2 million.

Syntel ended the third quarter with total headcount of 23,055 of which 7,612 were assigned to KPO. Our global headcount was lower by 3 percent from the second quarter. Our billable headcount was 4,621 on-site and 16,684 offshore for a total of 21,305. Utilization levels at the end of the quarter were 94.5 percent on-site, 78.9 percent offshore and 82.3 percent globally. Our delivery mix at quarter end was 25 percent onsite and 75 percent offshore. Voluntary attrition during the quarter was 25.4 percent as compared to 23.2 percent reported last quarter. Syntel added 1 new customer in the third quarter.

Looking forward, I would now like to provide you with guidance for 2016. Based on our current visibility levels, Syntel expects revenue to be in the range of $960 million to $970 million and loss per share to be in the range of $0.65 to $0.75 for the full year of 2016. 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 67 rupees to the dollar. We anticipate that operating margins will be in the 26 to 27 percent range. Our effective tax rate excluding the one-time tax on repatriation will be in the low 20 percent range for 2016 and Capex is expected to be in the range of $20 to $25 million excluding land purchases.

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. We'll pause for just a moment to compile the Q&A roster.

And our first question comes from the line of **James Friedman** of Susquehanna Financial Group. Your line is now open.

James Friedman

Hi, thank you. It's Jamie at Susquehanna. My question's for Bharat, but before I do, Anil, congratulations on your promotion.

Anil Agrawal

Thanks Jamie.

James Friedman

Bharat, are you of the view shared by say, Tata, that current challenges that the industry is facing are cyclical, or are you along the opinion of Infosys that the challenges the Indian industry faces are more structural in nature?

Bharat Desai

I believe they are structural in nature. And as enterprises adopt the cloud, their needs for services will change. I do believe, if you take a checkpoint today and a checkpoint say five years out, the total spend on technology will actually go up as businesses become more dependent on technology. If you look at as an example -- I quote Google, Facebook, Amazon, Apple -- they spend significantly on technology. Enterprises will want to become like digital enterprises. The nature of what that spend constitute will evolve rapidly. So that's the structural change I am referring to.

James Friedman

Okay, that's a great answer. I know you have been doing as long as any of them, so I wanted to get your perspective. And then Bharat, if I just follow-up, in terms of implications where you're positioning -- and you've moved the business just over the last few years to accommodate that view -- I was just wondering in terms of the implication for you say onsite/offshore delivery, if you can give us some view about where you are in that journey that would be interesting?

Bharat Desai

Great question. So, I think as customers are -- what I have observed over the last three decades is, when there is new service, the customer is more comfortable doing that right around their office, so that means onsite. But as that service scales, the reality of the cost structure implication of that scaling service hits them and that's when they start adopting offshore. And if you take a view -- today, there are what somewhere between 2 million and 3 million people offshore delivering IT, different clients of IT services, at a very attractive price point. My view is that that number will actually go up over time. These people will just be doing very different things from what they are doing today.

James Friedman

Okay, thank you for the insight.

Bharat Desai

Yes, in the short to medium term, you might see a bump in onsite utilization, but long-term to me the trends are crystal clear.

James Friedman

Thank you.

Nitin Rakesh

But if I may just add one more point to that, both on the first part of the question and the second part, I think if you see directionally what we are really doing is, continue to invest significantly in building capabilities around automation and modernization. And those are actually very well aligned with both the structural implication as well as the short-term issues that the clients are facing with when it comes to adoption of these new technologies, where we believe our automation-driven methodologies can be fairly powerful, both for run and build IT.

James Friedman

Thank you. All the best.

Bharat Desai

Thanks.

Operator

Thank you. And our next question comes from the line of **Joseph Foresi** of Cantor Fitzgerald. Your line is now open.

Joseph Foresi

Hi. I wanted to build on that question, if I could. If the changes are more structural, do you feel like you're investing enough for those changes? Obviously, we've talked about digital, and then how you would keep the margin profile stable, given the fact that maybe your investment plans need to increase?

Bharat Desai

Correct. We have always invested where we think investments are needed and the margins come out where they do. So -- and our margins reflect all the investments we've made in automation, in capability building, etc. So our focus very much right now is on building capability and building business momentum that would help our customers evolve, and we are comfortable. While it's hard to predict what that might do to margins in the short to medium term, I think, long-term the benefits of automation and the benefits of attractive price structures from our global delivery capability will give us good margins.

Joseph Foresi

Okay.

Bharat Desai

In addition, we also believe -- I also believe that automation will be a margin driver because we'll be able to use, deliver at a much more attractive price point when the services are being delivered today, at a significantly reduced cost, and therefore protect or even increase margins for those services.

Joseph Foresi

Okay. And then, is discretionary spending being cut, or is it being repurposed for digital? And can you talk about your competitive advantage there? And just remind me, I know you've mentioned it a couple of times, what percentage of revenue do you get from digital?

Bharat Desai

So, Nitin will take that.

Nitin Rakesh

So 15.5% for the current quarter compared to 14.2% over the previous year same quarter. So, I think, the discretionary spending has really got two parts. Part of it is going towards digital technology adoption and that includes customer facing, front-end technologies as well as the whole analytics and allied engagement layer. I think that part, while it is not that badly impacted, in sectors it is. Specifically, in sectors like Banking and Healthcare.

Where the bigger knock has really happened is in the traditional app dev part of the discretionary spending, where I think the impairment to decision cycles as well as overall budgets are really under pressure, given what's going on in the global macro-environment or in the industry-specific trends.

Joseph Foresi

Okay. And then perhaps we could talk about some of the segments that were negatively impacted this quarter. How do you see those playing out as we move into to 2017? And it sounds like there was a pullback in spending, are you expecting that spending to come back or are you just shifting resources? I just want to get a sense of how you look at that in those particular segments in 2017.

Nitin Rakesh

Sure, Joe. I think it's too early to say how that will play out in 2017 given that we are still kind of working through with our customers on how they think their budgets are panning out. But I can give you a little more color on three or four of our bigger sectors. So I think we are very pleased with the recovery we are starting to see in our insurance sector, and I think it's pretty evenly spread across the subdomains. We do believe we will continue to recover that slowly but surely, and we are cautiously optimistic towards that definitely in the short to medium term.

I think on the RLT segment also seems to have held up nicely. And I think there is continued tailwind on some of those sub-segments of that business unit for us, specifically on the retail side as I called out in my remarks.

On healthcare, I think we had some tough year-over-year comps in the current quarter because we didn't recover that business late half of 2015. Right now, what's going on is a combination of two things: one the regulatory uncertainty around Affordable Care Act linked to the US election cycle as well as certain uncertainties around M&A, and the enrollment season is still on. So, I think most players are waiting and watching to see how that plays out. We think any clarity on that will probably only emerge at some point once these factors have been addressed.

And as we speak, we know that there are -- there is a legal battle going on, on the M&A side, and obviously the election cycle will probably conclude towards end of the year. So, I think it's a little harder to call on healthcare, but I think these are the two or three main factors that have kind of impacted that. But we are fairly committed because we still think there is a long-term opportunity in the healthcare segment, and we will come to invest across the value chain.

And finally on banking, I think there has been a fairly significant headwinded environment. It only got, I would say little more complicated with some of the trends out of Europe and UK. We have a good pipeline, we are continuing to focus on closing that pipeline through the remainder of this year, and hopefully that will help us in 2017 as well, because we are basically doing what we think is the right, prudent thing to do in terms of conversions.

Joseph Foresi

Great thank you.

Bharat Desai

I just want to add in a little bit. You had asked about both capacity creation and our competitive positioning. And we have a team that tracks closely in this plethora of different options available to customers -- what the options are that are gaining the most traction from customers and what the most popular options are, and we're both executing projects on that, as well as building capability in those areas. And we're delivering that to our current clients, and we are focused on expanding that both to our current clients and with new clients.

Joseph Foresi

Thank you.

Operator

Thank you. And our next question comes from the line of **Jason Kupferberg** of Jefferies. Your line is now open.

Amit Singh

Hi guys. This is Amit Singh for Jason. Just wanted to talk about, talk a little bit about the near-term expectations. So your fourth quarter, your full year guidance indicates that the fourth quarter revenues will be down around 7% year-over-year. And then as I look at your headcount, it was down around 3%-ish year-over-year this quarter. So, are you expecting as you look beyond -- look into next few quarters -- for things to get worse before they start getting better?

Anil Agrawal

Sure, I can talk a little bit about the fourth quarter. I think, we've used the consistent metric of visibility, our committed revenue to the lower end of the guidance, and at this point it's at 99% which is where it should be at this time of the year. So, to stay consistent with our guidance and methodology, we basically adjusted our guidance. And given that the volatility and the uncertainty continues to be there in some of our sectors as I just talked about, we have also kept the guidance range slightly broader than what we normally keep at this time of the year, just to account for that volatility.

I think it's fair to say that the best we can do is to continue to focus on onboarding some of the deals that we thought we should have closed in the second half of the year, and as that happens, we'll obviously get better visibility as to where we finally land for the year. And again as I said, it's little too early to call out what might happen in 2017. I think, as I said, our focus really is to continue to convert pipelines, and as we get more clarity on budgets and macroeconomic trends for 2017, we will provide more color on the next quarter earnings call.

Amit Singh

All right. Great. And then now with the special dividend you have some debt on your balance sheet. In the near-term sort of capital deployment, is that going to be primarily focused on reducing that debt or you remain open to, if an accretive M&A opportunity comes along?

Nitin Rakesh

I think it's fair to say that we'll obviously continue to optimally manage our cash flow, but we are fairly open to looking at all opportunities for investment, including tuck-in M&As.

Amit Singh

All right. Thank you very much.

Operator

Thank you. And our next question comes from the line of **Anil Doradla** of William Blair. Your line is now open.

Anil Doradla

Hey guys. My question was around digital. So when you, I think you guys said it was about 15.5% flattish from last quarter and about 14.2% last year. So when I look at the quarter-over-quarter growth and year-over-year growth, not very strong. So I think, Bharat, the question that I have is, I understand certain industry-wide dynamics are changing, but when you look at even some of the traditional IT peers, the additional part of their business is growing very robust. So I'm trying to understand, why is your digital revenue is not growing say 15% to 20% to 25%?

Nitin Rakesh

Anil, fair question. I think I talked a little bit about that in my comments. So, it's clearly a combination of industry dynamics. I think our percentage of revenue from Banking and Healthcare put together roughly two-thirds, which is probably where the most headwinded environment is right now. Also, I think there is no standard definition of digital, and we've talked about SMAC plus IoT, but that doesn't include a lot of the digital modernization work we do.

So I think as we -- and again, every peer of ours uses their own definition as well. So, I think as we kind of get a little more comfortable with digital modernization and the trends there, we may look at defining this to cover some of the other areas of focus that we have been investing in.

Anil Doradla

Good. And building up on that, so if there are certain capabilities perhaps that you are looking, should we expect some activity on the M&A front over the next six to nine months?

Nitin Rakesh

It's hard to put a timeline on it. I think we updated on the last couple of call as well. We have been open. We have looked at multiple deals, and we have a very clear idea of what segments those have to be. So as and when we actually find something that meets all our criteria, we will update you.

Anil Doradla

All right. Thank you.

Operator

Thank you. And our next question comes from the line of **Frank Atkins** of SunTrust. Your line is now open.

Frank Atkins

Thanks so much. I just wanted to ask one more on the special dividend. What drove the Board to time it as it did -- any color you can give us on kind of the 'why now' question versus M&A or reinvestment?

Bharat Desai

Well, this is something that I mentioned in my prepared remarks. The Board deliberated carefully before making this decision. And the things we know are that we have a well talk out strategy, and believe our long term prospects are strong. The Company has strong free cash flow. Our company has had a record of returning cash to shareholders on a regular basis. And considering all these factors, our Board of Directors decided that returning cash to shareholders was the appropriate step at this time, factoring both our long-term needs and investment plans.

Frank Atkins

Okay, thank you. I wanted to ask about pricing. Are you seeing any changes in pricing especially in some of those sectors like BFS and Healthcare?

Nitin Rakesh

I think pricing is fairly stable. I don't think we've actually called out for that specifically. Also, I think we have talked about the fact that we are using our automation capability to counter some of the headwinds that some of peers have talked about. And I think as Bharat mentioned earlier, we do believe that we have the ability to use that as additional operating leverage. So I think we feel comfortable with the pricing situation, we will continue to find ways to expand penetration and operating leverage.

Frank Atkins

And last one from me, could you talk a little bit about attrition was up a little bit, are you -- what are you doing to attract and keep the right people?

Zaineb Bokhari

Yes, so Frank, as Nitin noted in his prepared remarks, we are very focused on building that workforce with the kind of skills that are going to be relevant to fulfill our customers' needs in the future. Our focus is to ready the organization for the demands of that digital economy.

We have introduced a program that we call Syntel X.0, which is a workforce transformation initiative that we think is going to play a critical role in the overall talent management and retention at our organization, and the goal is to really empower employees to take an active role in their career development. And on our side, we are providing some clear roadmaps for career enhancement and working to strongly enforce and align incentives to learning and skills development.

Frank Atkins

Okay, great. Thank you.

Operator

Thank you. And our next question comes from the line of **Puneet Jain** of JPMorgan. Your line is now open.

Puneet Jain

Hey, thanks for taking my question. So given growth is below peers this year, what drives the confidence that your services capabilities resonate with clients as much as it did few years ago, and that you don't need to aggressively ramp-up investments to stimulate higher growth?

Nitin Rakesh

Puneet, great question. Again, I think two things I would say that give us the comfort. Firstly, I think the adoption of some of the services that we've talked about, the investment areas around automation and digital modernization -- I think we are very pleased by the adoption of that with our existing clients, as well as the fact that it's actually been a great door-opener for us in acquiring new customers through the year. I think as those services continue to get broader and deeper, we do believe that we will continue to actually get back on the growth path we need to.

Secondly, I think we've talked about that as well. I think while conversions slower than we anticipated, our pipeline continues to be fairly encouraging when it comes to these services as well. And in many cases, I think it's been borne out by the green shoots we talked about as well as the fact that in markets like Europe, we continue to use our capabilities to open doors.

Puneet Jain

Right, and fourth quarter implied operating margins appear to be in mid-20s. So first, is that the right math? And second, if it is could you talk about what will hurt margins in that quarter? And how should we think about normal level of margins for the Company going forward?

Anil Agrawal

So, Puneet for the third quarter, we had a one-time exchange gain of $1.8 million as I mentioned in my prepared remarks, so that has put the operating margins slightly up. Having said that our operating margin would be in the mid-20s and then that should be fairly equal to what you should assume.

Puneet Jain

Got it. I thought prior range was around high 20s on normalized basis, so is mid-20s the new expectation for margins?

Anil Agrawal

Between mid to high, I would say.

Nitin Rakesh

I think, the key thing to note is that because of our change in dollar balances, the variability from SG&A will actually be much lower, and that's something that will get normalized as we go through the next few quarters. So, I think 26% to 27% range is the guidance we've given, and I think that's kind of is a fair range based on current visibility for the fourth quarter. And as we get into the next year, we will provide a range for 2017 as well.

Puneet Jain

Got it. Thanks.

Operator

Thank you. And our next question comes from the line of **Vincent Colicchio** of Barrington. Your line is now open.

Vincent Colicchio

Bharat, considering the structural shift, I am just curious, why you guys haven't been more aggressive on acquisition side, say in Europe over digital services. Are you not seeing reasonable valuations, just if you can give us -- help us more with your thought process?

Bharat Desai

So I think we have -- it's a good question. And we have been creating capability internally, first of all. We have evaluated several candidates that would have expanded our reach or added capability that we didn't have and brought in a little bit of scale. It ended up not working out, but we continue to be focused on A, building the capability ourselves, and B, looking opportunistically to see if there is a way to ramp that up faster through a combination.

Vincent Colicchio

And just one other question from me. Win rates, did they hold steady in the quarter?

Nitin Rakesh

I think it's fair to say that decision cycles were not what we expected them to be, and they were elongated and some of the decisions got pushed out. But having said that, I think we are still focused. We do have a healthy pipeline across many of our verticals, and we will continue to focus on conversion.

Vincent Colicchio

Okay. That's it for me. Thanks guys.

Operator

Thank you. And our next question comes from the line of **Josh Seide** of Maxim Group. Your line is now open.

Josh Seide

Hi. Thanks for taking my questions. Firstly, do you expect further declines in headcount due to natural attrition this year, or to adjust for the new expected demand trends overall?

Zaineb Bokhari

So Josh, we don't actually guide for headcount in any way. I think, we have made a longer term statement that we think that the pace at which headcount is going to grow is going to trail the pace at which revenue grows.

Josh Seide

Okay, understood. Thank you. And then with the industry growth slowing and Syntel seeing top line drop year-over-year, has management given any thoughts to meaningfully increasing the target utilization?

Zaineb Bokhari

On that measure, we are driving towards higher utilization and leveraging the capability that we have invested in around automation. I think what we have said and what you can expect is that utilization is going to remain above trend, relative to what the historical patterns have been.

Josh Seide

Understood. Thank you.

Operator

That concludes the question-and-answer session portion for today's call. I would like to turn the call back over to Mr.Nitin Rakesh for closing remarks.

Nitin Rakesh

Thank you, operator. I want to close for this call by thanking Syntel's employees for their efforts. We have a clear strategy and a common goal to establish Syntel as a global leader in digital modernization. Through ongoing investments in our people, capabilities, and culture, we are positioned to leverage our core competency in recursive automation to realize this goal. I look forward to updating you on our progress on the next quarterly call. Thank you.

Operator

This concludes Syntel's third quarter earnings call. A replay of today's call will be available until October 27, 2016 by dialing 855-859-2056 and entering the pass code which is 97795475. Thank you.

