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 Fourth Quarter 2017 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, Thursday, February 15, 2018. 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 fourth 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 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'm pleased with our results for the fourth quarter. We've concluded a challenging year on a positive note. Persistent macroeconomic uncertainty and impending policy changes impacted spending levels in some of the key industries we serve in 2017.

During this tumultuous period, we worked closely with our customers to help them evaluate and cope with changing demands and new requirements across their end markets. Our client-focused strategy is helping us expand our coverage and strengthen Syntel's relationship across our top 50 customers. This has helped us build a stronger opportunity pipeline and improve due closures. Finally, we continue to invest in solutions to address critical business priorities and emerging technology needs of our customers.

While the spending reductions in 2017 clearly hurt the year-over-year growth, we're pleased that our focus has deepened relationships with our top 50 customers and helped broaden and diversify our revenue contribution. This helped us partly offset some of the headwinds we faced. While there is lingering weakness in some industry segments, we focused on continuing this progress in 2018.

We continue to invest aggressively in building out our strong digital and automation assets. This has positioned us very well to support our customers' increased dependence on technology and rising competition from digital natives. We're also seeing strong adopters of digital services showing increased interest in applications, infrastructure and data modernization. We're seeing this broadly, as companies struggle to match the agility and scalability of born digital competitors while keeping their cost structures competitive. Syntel has strong IP and capabilities in the relevant areas: modernization, intelligent automation, analytics and Internet of Things, to help our customers transform into digital enterprises. We will continue to focus on innovation as we look forward to helping our customers achieve their goals and enhance their competitive positioning.

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. I want to echo some of Bharat's comments about quarter four. I'm pleased with our results and the improved execution we saw across many of our segments. We were better positioned to identify and close new opportunities as a result of our investments in client engagement and broader coverage across our top 50 relationships. Supported by these efforts, our four to 50 customer segment grew faster than the overall company during quarter four. There is more work to be done and we will continue to invest in these initiatives during 2018.

I want to share some insights about the business environment in 2018 and some of the trends we are seeing across our industry segments. The demand environment is looking somewhat mixed. Customer budgets are still being finalized at this time, but based on an early read, it is our view that 2018 budget will be flat in most cases. There are still some pockets of weakness. By industry segments, we are seeing the weakness primarily in our Banking and Financial Services industry segment.

Our Retail, Logistics, Telecom and Insurance segments are looking healthy for 2018. We are seeing some mixed trends in our Healthcare and Life Sciences segment, and expect to have more clarity as the budget is finalized. In addition to this, demand for digital services remains strong and we continue to see rising interest in automation-driven services and modernization. Based on everything we know about our business at this time, we are setting a revenue range for 2018 of $905 million to $950 million, and $1.72 to $1.92 for EPS. Our visibility to the low end of the revenue range is at 64%. Anil will expand on our quarter four metrics and 2018 outlook in his prepared remarks.

Now let's review our results. Syntel's quarter four revenue was $239.8 million, up 0.8% year-over-year, and 3.7% on a sequential basis, aided by improved sales execution. We also saw some improvement in demand as the quarter progressed. There were some furloughs during quarter four. However, the level was below what we had anticipated. During quarter four, we saw a continuation of many of the industry trends we've called out in the preceding three quarters.

By industry segment, the Banking and Financial Services segment declined 7.6% year-over-year in quarter four. The Retail, Logistics and Telecom segment was lower by 1.1% on a year-over-year basis due to weakness in retail, while Logistics remained healthy. The Insurance, Healthcare and Life Sciences segments, both increased by approximately 15% from a year ago. Healthcare and Life Sciences growth was supported by contribution from the pair and Life Sciences area. Manufacturing grew 5.6% in quarter four as compared to a year ago. European revenue grew 20.8% year-over-year, tied to the strong trends in Insurance, Healthcare, and Life Sciences during quarter four. We expect the region to remain an important driver of growth longer-term.

Revenue from digital projects accounted for approximately 19.7% of revenue in quarter four as compared to 19.1% in quarter three, 2017, and 15.8% in the year-ago quarter. On a year-over-year basis, quarter four's digital revenue increased by 25.6%. Quarter four gross margin widened to 41.3% from 38.1% in the third quarter. Offshore utilization for IT rose to 76.6% in quarter four from 75.4% in quarter three on a period-end basis. It rose to 76.5% in quarter four from 75% in the previous quarter on average.

We continue to expect utilization above long-term historical trends. The mix between on-site versus offshore delivery was 23.7% and 76.3% in quarter four, as compared to 24.1% and 75.9% in quarter three. Net headcount increased by 186 employees on a sequential basis to 22,114 in quarter four. Hiring continues across geographic regions tied to anticipated need and requirement of our customers. Attrition, calculated on a current quarter annualized basis was 22.4% in quarter four, as compared to 20% in quarter three.

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 fourth quarter revenue came in at $239.8 million, up 0.8% from the prior-year period and 3.7% from the prior quarter. For the fourth quarter, Banking and Financial Services contributed 44.4%, with Healthcare and Life Sciences at 18.2%; Retail, Logistics and Telecom at 17.3%; Insurance, 15.6%; and Manufacturing, 4.5%. On a year-over-year basis, segment growth was led by the Insurance segment, which grew 15.1%; Healthcare and Life Sciences, 14.8%; and Manufacturing 5.6%.

Syntel's customer concentration levels were as follows: our top three clients represented 43.2% in the fourth quarter of 2017 as compared to 48.3% in the year-ago quarter, and 44% in the third quarter of 2017. Accounts four to 50 represented 52.2% of revenue in the fourth quarter of 2017 as compared to 47.6% in the year-ago quarter, and 51.7% in the third quarter of 2017. The fixed price component of our business was at 44.6% of revenue for the fourth quarter of 2017.

With respect to Syntel's margin performance, our fourth quarter gross margin was 41.3% as compared to 40.2% reported in the year-ago period and 38.1% in the third quarter of 2017. By segment, gross margin for Banking and Financial Services was 43.5%; with Healthcare and Life Sciences at 43.5%; Retail, Logistics and Telecom at 42.2%; Insurance, 35.5%; and Manufacturing, 29.5%.

During the fourth quarter of 2017, the Indian rupee appreciated by two basis points on an average related to the U.S. dollar from the prior quarter with no impact on the gross margin.

Moving down the income statement, our selling, general and administrative expenses were 12.2% in the fourth quarter of 2017 compared to 13.1% in the prior-year period and 11.7% in the third quarter of 2017. On a dollar basis, SG&A was higher by $2 million sequentially. The impact on the fourth quarter SG&A from currency-related balance sheet translations based on quarter end exchange rates was $180,000 loss as compared to $260,000 gain recorded in the third quarter of 2017. The appreciation in the average rupee rate had no impact on SG&A.

Other expense was $2.1 million during the fourth quarter of 2017 as compared to $2.5 million in the third quarter of 2017, including a gain of $0.7 million from mutual fund sales in the fourth quarter of 2017 as compared to a gain of $0.3 million in the third quarter.

Our tax rate for the fourth quarter came in at 37.4% as compared to 16.4% posted in the third quarter of 2017. During the fourth quarter, following the enactment of the Tax Cuts and Jobs Act, there was a one-time impact of approximately $9 million in the tax provisions, of which approximately $8 million was related to a one-time repatriation of cash and $1 million was due to an adjustment of deferred tax assets. The combined impact of these provisions reduced fourth quarter EPS by $0.11 per share. As a reminder, during Q3, Syntel had a one-time reversal of approximately $6.3 million in tax provisions that aided EPS by $0.07 per share.

Net income for the fourth quarter was $42.4 million or $0.51 per diluted share as compared to $48 million or $0.57 per diluted share in the prior-year period, and net income of $48.8 million or $0.58 per diluted share in the previous quarter. The complete balance sheet at the end of the fourth quarter of 2017 remained healthy. Our total cash and short-term investments balance as on December 31 was $122.5 million, and the portion held in U.S. dollars stood at 66%.

DSO levels were at 53 days. Capital spending for the quarter was approximately $2 million. Syntel ended the fourth quarter with a total headcount of 22,114, of which, 8,407 were assigned to KPO. Our global headcount was higher by 0.8% from the third quarter. Our billable headcount was 4,438 on-site and 16,238 offshore for a total of 20,676. Utilization levels at the end of the quarter were 92.5% on-site, 81.3% offshore, and 83.7% globally. Our delivery mix at quarter end was 23.7% on-site and 76.3% offshore.

Voluntary attrition during the quarter was 22.4% as compared to 20% reported last quarter. Syntel added four new customers in the fourth quarter. During the fourth quarter, we repurchased 5,000 shares for $0.1 million, bringing our total repurchase in 2017 to $16.2 million or 880,435 shares under our existing authorization.

Looking forward, I would now like to provide you with guidance for 2018. Based on our current visibility levels, Syntel expects revenue to be in the range of $905 million to $950 million, and earnings per share to be in the range of $1.72 to $1.92 for the full year of 2018. The company currently has 64% 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 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-to upper-20% range for 2018, and CapEx is expected to be in the range of $10 million to $15 million. The projected EPS range does not factor in any share purchase other than those completed through December 31, 2017.

We will now open the call for a question-and-answer session. Operator?

Operator

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

Joseph Vafi

Good results everyone. I was wondering if we could speak a little bit about the top three customers in the quarter. It looks like they were all stable and maybe, in particular, your largest customer showed increased stability. And I was wondering if you could provide in the '18 outlook what you're expecting for your top three customers? Do you expect to see growth in that group? And then I'll have a follow-up.

Rakesh Khanna

Joseph, we see every Syntel customer as a growth customer, and clearly, in the top three customers, we have a very deep relationships. We continue to have a strong market share. And even though there were budget cuts in one large customer, we continue to have a strong market share and retain our position in that account.

We do not specifically discuss account-specific details. Do watch out for the details in the filings. We report the 10%-plus customers. But overall, we do feel good about our positioning in our top three accounts. Also, in our accounts four to 50, and we have shared our strategy that we do expect accounts four to 50 will grow faster than company average overall.

Joseph Vafi

Okay. And then just as a follow-up, if you look at your 64% visibility to the low end of the range this year versus last year, do you see a change in mix of the types of services that is — that comprises that 64% visibility? And just quickly, what are customers saying about their IT budgets for 2018? We seem to be getting some data points of a better strength at this point.

Rakesh Khanna

IT budgets are flat. Of course, this is an early read. They're still in process of getting finalized across the different business segments, but what we see now is — really the initial impression is they will be flat. In Healthcare and Life Sciences though, as we speak, they are -- there is some lingering uncertainty so we really do not have a very clear view, and we'll probably be able to refresh and update in the next call.

With respect to your other question around the outlook and the kind of business services, the 64% visibility, we clearly see a good uptick in digital projects, and that's also reflected a little bit in — if you look at our growth in Q4, we had a 25% growth in the quarter year-over-year, and we are very, very pleased with that kind of growth.

And just to add a final color, what we saw in Q4 of last year, we saw the sentiment improving a little bit, okay? So what we see in the customers now, sentiment is slightly better than what we saw same time last year.

Joseph Vafi

Thank you.

Operator

And our next question comes from the line of **Edward Caso** with Wells Fargo.

Edward Caso

I was wondering if you could just give us a sense of how things are going on the human capital side of your business? The attrition on a voluntary basis running still in the 20% area. And the second question will be any updates you can offer on your thoughts on visa reform in the U.S. Thank you.

Zaineb Bokhari

Ed, on the attrition, that's clearly a metric that we are managing. But I think we've said for several quarters now — as a general trend — we expect attrition to remain elevated for some time. Our focus is on upskilling and reskilling the workforce, keeping up with the changes and the requirements and needs of our customer.

So we've invested in this area and also invested to empower our employees in that reskilling process. But clearly, not everyone will make the transition, and that's why we expect to continue to see this metric elevated for some time.

On immigration, we're definitely watchful as any developments on the policy front that could impact us, and always will comply with laws and regulations in whichever jurisdiction we're operating. I think while we await some clarity there, we have a long-term plan. We're investing in local hiring, campus hiring programs and definitely working to ensure that our customers don't experience any service interruption regardless of the policy.

Edward Caso

If I could sneak in one more, was there any budget flush in the quarter? So I guess, you sort of surprised us on the upside with revenue?

Zaineb Bokhari

No, there was no meaningful budget flush in Q4.

Edward Caso

Thank you. Congrats.

Operator

And our next question comes from the line of **Mayank Tandon** with Needham & Company.

Mayank Tandon

So just looking at the guidance, Rakesh, if you could just comment on what will it take for Syntel to return to industry-type growth? I think the industry is probably growing somewhere in the high-single digits, low-double digits looking at your peer group. Is it more investments? Or is it just a function of diversifying the client mix more to the non-top three, just maybe if could talk about what are some of the potential drivers to get Syntel back to industry-type growth over time?

Rakesh Khanna

Right. Mayank, look, we are focused on getting Syntel back to industry growth, and clearly, we have a solid strategy. We talked earlier about investing continuously, which we've been doing on expanding feet on the street, expanding executive bandwidth for more client connect, going deeper into the top 50 accounts at Syntel. So -- and clearly also the service offerings.

We continue to invest. SyntBots, our automation platform is doing extremely well. We have delivered a good digital growth as is evidenced on the numbers. So overall, there is definitely a strong focus to get back to industry growth levels.

However, what we also see is a continued weakness in the Banking and Financial Services segment, which is a significant part of our portfolio. And we will really have to sort of see as some of those headwinds abate will also help us get back to that growth rate. But clearly, if you see the deal closure rate, the service is resonating very well, and overall, a strong pipeline, all of those are working well in our favor.

Mayank Tandon

Got it. That's helpful color. And then, if I could just turn to margins for a little bit. In terms of the guidance I think I heard 22% to 24% operating margins for fiscal '18. What are some of the puts and takes that are driving margins lower in '18 versus where you finished in '17?

Anil Agrawal

Mayank, the margins are primarily tied to ongoing investments in our account coverage for top 50. And along with that, as Rakesh alluded, we are investing into development of our IP digital industry solutions towards more modernization, IT Ops, product engineering. At the same time, we are investing in our people in terms of hiring, training and skill development. And this is all impact in addition to the INR appreciation that we see in 2018 versus 2017.

Mayank Tandon

OK. Thank you, appreciate it.

Operator

And our next question comes from the line of **James Friedman** with Susquehanna.

James Friedman

Good results. Here it's Jamie with Susquehanna. I just want to ask about, when I look at the headcount sequence Q3 to Q4, the IT number was flat to somewhat down, but the KPO number was up. I know it's just one sequential observation, but how should we be thinking about what you're anticipating or seeing in terms of the relative strength of the two: KPO versus IT?

Zaineb Bokhari

So I'll touch on KPO headcount that you mentioned, Jamie, and if anyone else wants to add. You're correct in observing that we have seen KPO headcount continue to rise. While we don't really provide segments by service line, we are seeing healthy trends for KPO in Q4, and we saw that probably throughout calendar '17, and that's what's showing up in terms of that headcount. We're adding customers and cross-selling those services across existing customers, and we certainly did that in Q4 as well.

James Friedman

Thank you, Zaineb. And maybe for my follow-up. So correct me if I'm wrong, but with regard to a previous question, I actually didn't see the disclosure about the top customer. It's sort of my job to ask. But previously I thought that you had disclosed that, maybe we just have to wait for the K, but when there's less disclosure versus more analysts always notice that. Maybe I'm wrong and maybe it's in here and I don't see it, but any context on that disclosure would be helpful.

Zaineb Bokhari

Happy to address that, Jamie. So if you recall, and we've reported that metric for some time. But if you refer to our filings where we disclose actual data about our greater than 10% customers, they're now pretty much similarly sized versus historically, where we had one that was much bigger.

And our discussion and the way we talk about our company is really tied to top three, top 50, four to 50, so we've made our metrics aligned with that. The disclosure on our greater than 10% customers will continue to be in our filings.

James Friedman

Got it. Thanks for the follow-up.

Operator

And our next question comes from the line of **Joseph Foresi** with Cantor Fitzgerald.

Mike Reid

This is Mike Reid on for Joe. I was looking at -- this year with a decent improvement in utilization, is this kind of a new normal there, or could we see some more improvement from the levels of this year?

Zaineb Bokhari

Mike, we don't generally provide annual targets for utilization. The thing -- the general trend that we've been talking about with respect to utilization is that we plan to run it above trend. IT offshore utilization, as Rakesh mentioned, was at about 76.6% end of period, but still within that sort of broad range of 60% to 80% utilization that we like to run it. But I think the general view is that, we won't provide the annual targets, but we'll run it above trend.

Mike Reid

Okay. And then maybe can you give us a little color on some of the progression of SyntBots and some of the use cases you might be seeing and implemented for?

Rakesh Khanna

Sure, Mike. Yes, I'll start and then I'll invite Bharat, if he has some comments, when I summarize. So, Mike, we have some -- a very strong SyntBots. We have a first mover advantage. We've been early to market. More than one third of the top 50 customers are in different stages of implementations.

And in terms of use cases, if you look at say, IT Ops, lights-on work. We have lot of great stuff in production which is self-healing, so you can eliminate manual effort to resolve tickets. In the DevSecOps area, again, very compelling IP, a lot of libraries which enable you to do extremely fast agile and extreme programming, to do very quick releases.

On the business process side, we've got SyntBots for BizOps. For example, we have machine learning NLP stuff, which can sift through e-mails, detect customer communication and create a ticket automatically, stuff like that. Read the intent of an e-mail and then, in fact, respond automatically, closing the loop, stuff like that. Even in research, it can actually go through tons of stuff and then come up with patterns.

We've got a lot of image recognition, voice recognition — all of that good stuff — bundled as part of the SyntBots automation platform from Syntel, and that's what we call "services powered by automation."

Bharat Desai

Yes, I can maybe add to that. Rakesh, thank you. Rakesh has articulated three use cases really well. I'll add a fourth, which is legacy modernization. And one of the things we're seeing is, as customers embrace the digital world, they're finding that their -- the customer experience is constrained by their legacy -- their technologies, their technical depth and their legacy systems.

So as they embrace digital enterprises, they are actually turning to more aggressive spending on legacy modernization and there, we have a best-in-class offering. A couple of other things I want to emphasize here.

One, is that, our investments here are ongoing and our tools are learning tools. So the more experience we have, the smarter the entire ecosystem gets. And then, just to touch upon an earlier question, one of the reasons we're seeing slower headcount growth on the IT side is we are proactively taking automated solutions to our customers.

Operator

And our next question comes from the line of **Bryan Bergin** with Cowen.

Bryan Bergin

I wanted just to — again on the 4Q performance — can you just give more detail on what drove results well above your guidance and your expectations?

Rakesh Khanna

Bryan, a combination of multiple factors helped us deliver a good Q4. One of them I already alluded earlier, we've made investments in the beginning of last year in deepening the customer relationships, the connects, investing more in client-facing personnel, right? That definitely helped us expand the coverage.

The second area was clearly the service offerings, resonating very well. They are getting wider acceptability leading to better deal closures. And the third thing I would attribute is we were expecting furloughs, but due to the slightly improved sentiment, the furloughs were lesser than what we had anticipated. So I would characterize these as contributing factors for a good growth in Q4.

Bryan Bergin

Okay. And then on the clients four through 50, a nice rebound there. Can you talk about individual sectors that may be driving that, or any large new accounts that are really performing well?

Rakesh Khanna

Yes. It was -- Bryan, it was more broad-based, right? But I already -- the fact -- the trend I talked about at an industry level, at a macro level, we do see softness or rather weakness in the Banking and Financial Services segment. However, having said that, we are very bullish, I mean, very positive about Insurance, Retail, Logistics and Telecom. Healthcare and Life Sciences, I did talk about, will come back.

And within these four to 50, we saw a very good traction in the digital services, in legacy modernization and services powered by automation, that would be the broad brush summary, Bryan.

Bryan Bergin

Okay. And if I could just sneak one more in, Europe growth. Can you just comment on any FX tailwinds to the number there? Anything was in your expectation for '18? And as you think about growth in that region, do you have the resources in the sales in place? Or do you need to invest more there?

Anil Agrawal

So I will start about the FX, we are not assuming any change in the FX for 2018. It remains same. There is no FX impact built into our guidance. Regarding sales, we continue to be bullish on Europe, growing faster than the company. Rakesh, do you want to add?

Rakesh Khanna

No, I think you covered it well, Anil. So clearly, we do see good growth overall and we do expect Europe to grow faster than company overall. And again, if you see, we had a 20% growth in the quarter Y-o-Y, which is a good signal, it's a good trend. And we continue invest in sales and penetrating the accounts further.

Operator

And our next question comes from the line of **Maggie Nolan** with William Blair.

Margaret Nolan

I was wondering if there's any vertical or geography that you would want to highlight where you had particular success or strength in your digital projects?

Rakesh Khanna

Right. I would say, for example, retail is really one area I will call out where we are seeing some very solid traction, okay? If you look at, for example, using analytics, either in Retail or Logistics, okay? The use cases that we're working on are very impressive. For example, if you export packages, and things get stuck in customs, using analytics to preempt that and enable straight through processing. So things are not getting stuck. Looking at past data, looking at historic patterns to improve TAT, turnaround times, is a very strong use case.

Also, in a provider, I will give you a good example. I was with one of our customers, and I was talking to the CIO of one of our large provider customers. And the CIO told me that he was addressing a conference with 150 physicians. And the CIO is telling the physicians that he's able to save more lives than the physicians because he has access to 10, 20 years of medical records of lot of analytics and data. And when the physician -- when a patient walks in, the physician is only able to diagnose based on the current symptom.

But using Hadoop, Big Data, and lot of analytics around this, the CIO is able to deliver a patient history and to be able pattern match this with thousands of other patients, so on and so forth. So there is some cutting-edge work that we are engaged in with a lot of our customers, Maggie. And I can go on and on, but I'll pause, because there are multiple things that we are engaged in, frankly.

Margaret Nolan

Okay, great. And then, I think in the past you've shared a gross margin expectation. Do you have an expectation for 2018 that you could share with us?

Anil Agrawal

Yes, Maggie, sure. On gross margin, we are expecting between 35% and 37%.

Margaret Nolan

Thanks for taking my questions.

Operator

And our next question comes from the line of **Frank Atkins** with SunTrust.

Frank Atkins

I wanted to ask what drove the performance in the insurance vertical? What areas are you seeing there of client demand? And in what ways are you addressing that better than your peers?

Rakesh Khanna

Yes, Frank, we are seeing a very good traction in the personal lines, also in life and retirement. Commercial lines looks a little bit challenged, but these are really the sub-segments inside insurance. Frankly, all three in that sequence, are actually showing good growth opportunity for us.

Frank Atkins

And then my second question was on digital, it's now 19.7% of revenue. What are margins in digital? And how do you think about margins going forward in 2018 as you balance the pace of investments with pricing as well as providing kind of higher-value added work and growth on that side?

Rakesh Khanna

Yes. Frank, we do see good traction in digital and like you correctly pointed out, the kind of skills is more consulting initially, at least in the incubation phase and the initial phases of the project, and we are able to command higher bill rates associated with some of those projects. So overall, it is a good business and growing very well for us.

Frank Atkins

OK great. Thank you very much.

Operator

And our next question comes from the line of **David Stratton** with Great Lakes Review.

David Stratton

Good morning, and thank you for taking the question. I just have one at this point in the call, but when we look at your fixed price to time and materials, there seems to have been a steady march upwards in your fixed price contracts.

And I'm just wondering how that correlates to the lull you've seen in customer contracts in general? Or if you can give any color regarding that march up? And then also maybe some color behind, is there a time and material preference, would you prefer that to fixed price? Or what are your views on the contract mix?

Rakesh Khanna

Yes, David, the increase that you see, we are moving -- if you look at the lights-on work, okay, the application management, IT Ops, infrastructure support, that kind of stuff, we clearly offer managed services powered by automation and that's where you see an uptick in terms of the percentages, as you correctly pointed out.

Now with respect to our preference, I would go by what model fits the customer the best. I would look at where are they in terms of maturity, right? It's -- most customers we deal with are very mature, have been outsourcing for years — and fairly sophisticated governance, in which case, we would be keen to work on a fixed price or a managed services because you have clear lines and rules of responsibilities and clear demarcations, right?

Whereas in some cases, where the client, or a certain area in the client space is just beginning its journey, I would rather -- we would rather suggest going on a T&M to get started, get to know each other, form a strong partnership and then use that foundation to launch multiple service offerings depending on the comfort as well as what is relevant for the customer, David.

David Stratton

On a margin basis, are they comparable?

Anil Agrawal

So David, we don't break out our margins between fixed price and T&M.

Operator

And our next question comes from the line of **Puneet Jain** with JP Morgan.

Puneet Jain

Great quarter. What do you expect for tax rate for this year and ongoing forward basis given BEAT say, it will increase from next year? And then given increased flexibility on moving cash, could there be any change in use of cash policies?

Anil Agrawal

Hi Puneet. So, the tax rate on a net basis with the change in the U.S. tax policy, while we do benefit on the net basis, some part of the tax rate is offset by BEAT. And then for the current year, we expect revenue -- a tax rate between mid- to- upper-20%, which is in line with 2017, because some part of the benefits we got in the tax regime, is offset by the expected impact from SEZ expirations of the incentives that we have in India.

And as a company, we usually guide a one-year tax rate. Under longer term, when you're asking about the cash policy because of this change, we don't comment on the future repatriations, but you can expect us to continue to optimize our tax rates and manage our cash balances across geographies to support our operational needs.

Puneet Jain

Got it. And how does your pipeline and movement of deals within the pipeline compare with that of last year's? It appears your contracted revenue or backlog is up 2% year-on-year, if my math is right. So a little surprised that guidance could have been actually -- sorry, guidance could have been a little higher than where it is.

Rakesh Khanna

Puneet, pipeline is healthy, okay? And the difference between last year and now is about 1%. We had used 63% as a percentage of the committed revenues to the lower end, and this time, we are looking at 64%. And clearly, some of that is to factor in the volatility in Banking and Financial Services, which is really our largest segment. So we clearly have work to do.

And also I did talk about, Puneet, the Healthcare and Life Sciences segment. We still do not have full clarity on the budget situation as it's unfolding. An early read is there is a lingering uncertainty in the payer community, although we saw a good growth in Q4 in Healthcare and Life Sciences, but overall, Puneet, the pipeline is strong and healthy.

Operator

And our next question comes from the line **of Brian Kinstlinger** with Maxim Group.

Brian Kinstlinger

With domestic utilization down about two points, and that's obviously where the salaries are the highest. Can you talk about what the drivers were to the highest gross margin we've seen in a long time? And then, what's changing that you mentioned 35% to 37% gross margin for next year?

Anil Agrawal

So Brian, the Q4 -- the margins was aided by -- while it was on a year-on-year basis, we had a revenue growth, and which was also supported by lower headcount and increased utilization. So that factor plays in our support for the margin increase from a quarter-on-quarter and also on a year-on-year basis.

And there are some factors, which I called out earlier, which are impacting our margins for 2018. That, we believe, is the continued investments in our employees in terms of hiring, training and developing their skills. At the same time, continued investments in our coverage for the top 50, development of our IP, digital and industry solutions, which we continue to invest in.

Brian Kinstlinger

Okay. I'll move onto the next question, my next one, but actually your domestic utilization is the lowest it's been in a long time and that is I think where the higher people are, higher-salary people are. But if we look at the KPO business, I think that was an interesting question too. In the past, you've had one customer dominate the KPO revenue.

And I guess, I'm curious if you've been able to diversify the KPO revenue without giving obviously specific numbers, are more customers adopting your KPO business? Or is that really still been a one customer business?

Zaineb Bokhari

Yes, we have continued to diversify there.

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 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.

Operator

This concludes Syntel's fourth quarter earnings call. A replay of today's call will be available until February 22, 2018, by dialing (855) 859-2056 and entering the passcode, which is 4299607. Thank you and have a great day.