MindTree Consulting Ltd.
Investors/Analysts Conference Call
(Jan 23, 2008, 4:00PM IST)

Moderator: Good afternoon ladies and gentlemen. I am Rita, the moderator for this conference. Welcome to the MindTree Consulting Limited Fiscal 2008 Third Quarter results conference call. For the duration of the presentation, all participant lines will be in a listen-only mode. After the presentation, the question and answer session will be conducted for participants connected to international bridge. After that, the question and answer session will be conducted for participants connected to India. I would now like to hand over the floor to Mr. Bhaskar. Thank you and over to you sir.

Bhaskar: Thank you Rita. Wish you all a very happy new year. Good evening and welcome everyone to the conference call to discuss MindTree Consulting's financial results for the Third Quarter ended December 31, 2007. I am Bhaskar from the Investor Relations team in Bangalore. We have with us senior management team including Mr. Ashok Soota, Chairman and Managing Director, Mr. Subroto Bagchi, Chief Operating Officer, Mr. N. Krishnakumar, President and CEO IT Services, Mr. S. Janakiraman, President and CEO R&D Services, Mr. Rostow Ravanan, CFO, and Mr. Puneet Jetli, Vice President and Global Head People Function. The agenda for the session is as follows. Ashok and Rostow will begin with a brief overview of the company's performance after which we will open the floor for the Q&A session. Before I hand over, let me begin with the safe-harbor statement. During the course of the call, we could make forward-looking statements. These statements are considering the environment we see as of today and obviously carry a risk in terms of uncertainty because of which the actual results could be different. We do not undertake to update these statements periodically. I now pass it on to Mr. Ashok Soota.

Ashok Soota: Thank you Bhaskar. Good evening and welcome to the analyst conference at the end of Q3 Financial Year 07-08. Our Q3 software revenue was 47.2 million dollars. In dollar terms, this represents a quarter-over-quarter growth of 5% and a year-over-year growth of 45%. In Indian Rupee terms, the Q3 software revenue grew 2.5% q-over-q and 27% year-over-year. I think one of the consistent improvements that we have been having is that our EBITDA has been going up quarter to quarter and it now stands at 17.2% in Q3 and I'd say we have industry leading year over year EBITDA growth of 44.9% in US dollar terms. We added 23 customers this quarter and now have 190 active customers at the end of Q3. Of these, 42 are one million dollars and above, so it has increased from 41 in the previous quarter and 6 are five million dollars and above, which has increased from 5 in the previous quarter and we have two 10-million dollar customers. We added in the last quarter two Fortune Global 500 customers. One of the most important leading indicators of success in our business is customer satisfaction. We recently concluded our extensive Customer Experience Survey in December 2007 and we are pleased that we got in terms of willingness to do repeat business with us, customers who gave us 4 or higher on a scale 5 came to 94% and similarly in terms of overall satisfaction on a scale of 4 or higher on 5, the number was 88%. We did an acquisition during the quarter which was TES-PV and the 160 plus new MindTree Minds that we now have considerably strengthen our IC Design practice making us a significant player in this space. It has been our best quarter for various recognitions we have received for some of the areas which we believe are very important areas of excellence.

We were recognized in terms of Corporate Governance in the Top 25 companies in the country. We have received an award in Innovation. We were recognized in terms of Most Admired

Knowledge Enterprise and also in terms of our People Practices. All of these contribute towards our Vision of becoming amongst the most admired companies in our industry.

We started our operations in Chennai on December 10, 2007, at the Mahindra World City Campus which is an SEZ facility. In addition, as a part of expanding our geographical footprint, we opened a new office in Cologne, Germany. Our People brand continues to be strong. On a gross basis, we added 828 people during the quarter. Of this approximately 71%, that is 590 persons were engineering graduates who joined us in mid October. The attrition on a trailing 12-month basis was 16%. If I were to highlight again an area of concern and a challenge that we see and that is the continued appreciation of the rupee against US dollar and also against certain other currencies that we have seen in this year. Now, let me pass it on to my colleague Rostow to share a few other highlights and we will thereof open the floor for questions.

Rostow Ravanan:Thank you Ashok. Good evening to everybody who has joined us on this call. Some of the other highlights on the financial angle for Q3 were as follows. In the quarter, we had an overall fee income growth of 4.7%, of which 2.1% was price increase, which we believe has been amongst probably the best of the IT companies who have declared results so far. For the 9 months ended December 31, 2007, our total income was 136 million dollars which itself was a 41.2% growth in Dollar terms and 25.2% growth in Rupee terms. Ashok highlighted that we had very very strong EBITDA growth.

I would like to highlight one other issue that happened during the course of this quarter, which was that as announced in the previous quarter, we had taken a foreign currency loan along with some structured derivatives embedded in the loan in Q1 of this year. During the course of this quarter, the Institute of Chartered Accountants announced a new accounting standard under which those types of instruments had to be accounted under the fair value method. In the previous quarter, that accounting treatment was not adopted. Though the new accounting standard is not applicable for the current quarter, in the light of our always intention to be you know very very conservative and prudent in our accounting practices, we had done fair value accounting of this instrument and taken a charge of approximately 2 million dollars in Q3, which is why you would see that our other income is lower in Q3 as compared to Q2 and therefore our overall profitability at a net margin level is also lower in Q3.

Other than that, I also want to highlight that if we had adopted the same practice of doing fair value accounting for all our forex hedges, that would have given us a gain of approximately of 6 million dollars, but like I highlighted before in the interest of doing conservative accounting, we did not book gain but we only booked loss as soon as we were aware that a possible negative fair value existed on those instruments. As of December 31, 2007, we had approximately 130 million dollars of hedges on our receivables. In terms of service offerings, Independent Testing, IMTS, and Package Implementation showed very very strong growth. In terms of geographies, our APAC business and Europe business showed very strong growth. We are seeing a resurgent demand in our Europe and APAC business with US continuing to maintain its high growth rate over the previous two quarters.

Lastly, coming to the guidance for this fiscal year, as you know, in the beginning of the year we had guided 178 to 180 million dollars of revenue for the year. Now we are revising that guidance upwards at 186 million dollars on total income this year. On the PAT level, we had guided to 22.5 to 22.6 million dollars of PAT for this year. We are maintaining the guidance of 22.6 million dollars of PAT for this year. This guidance when originally given assumed a rupee-dollar rate of 41 and the rupee-dollar is probably closer to 39.5 right now. In spite of that appreciation, we are maintaining the guidance at 22.6. We will now open the floor for Q&A. Thank you.

Moderator: Thank you very much sir. At this moment, I would like to hand over the floor to the international moderator to conduct the Q&A session for participants connected to WebEx International. After this, we will have a question and answer session for participants connected to India bridge. Thank you and over to you Katrina.

International Moderator (Katrina): Thank you moderator. We will now begin the Q&A session for participants connected to the WebEx international bridge. Please press *1 to ask a question. At this moment, there are no questions from the participants at the WebEx International Center. I would now like to hand over the proceedings back to India moderator.

Rita: Thank you Katrina. We will now begin the Q&A session for participants connected to India bridge. Participants who wish to ask questions, kindly press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in-line basis. Participants are requested to use only handset while asking a question. To ask a question, kindly press *1 now. First in line we have Mr. Rohit from Kotak. Over to you sir.

Rohit: Yeah. Hello to the management team. Mr. Soota, I have a question for you. For a you know company of relatively small size, a young company especially with the management credentials like you guys have, in fact with all the building blocks in place, would it be unreasonable you know for us to expect a much higher growth trajectory in FY2009. As you know, there are several new opportunities opening up in terms of verticals, service offerings, geographies, so can we expect a much higher growth to say 45% to 50% revenue growth from your company in FY2009.

Ashok Soota: Well, you know the first important thing obviously is going to be how do overall markets pan out in the year ahead and there of course I must say that we remain confident that market growth, total outsourcing, total size of worldwide IT spending will hold up. In fact, any recent surveys that we have seen including Forrester survey says that total worldwide IT spending will continue to grow, marginally lower, but that gets offset by total offshoring percentage which has been increasing year to year. Having said that, in terms of overall grand total growth, even our own base gets higher from year to year. At this point of time, we are not wanting to make either a forward-looking statement or I would say give a formal guidance. We would like to do that in April when we have completed our internal plans and got those approved by the Board for the year 08-09. We have indicated I'd say even as we released the results that we are confident that the growth rates would be at least 25% to 30%, but I would like to just say that just to show an indication that we remain confident of growth, this statement should not be seen either as a forward-looking statement or a guidance statement. In terms of the numbers you talked about saying because of these considerations could it be 45 or 50, I think one must be clear that it is not going to be in those ballpark numbers and the only way if we did an adhoc inorganic and we are not seeing anything on it, but the organic growth clearly cannot be that and from time to time if we come across an acquisition opportunity which adds to those levels, that will obviously be superimposed on the same.

Rohit: Well, thank you so much. Thanks.

Moderator: Thank you very much sir. Next in line we have Mr. Sunil from Credit Suisse. Over to you sir.

Sunil: Hello sir, I am Sunil. A couple of questions sir. Your volume growth seems to be a bit low for the quarter, any comments on that.

Rostow Ravanan: The volume growth was low for this quarter because of you know certain amount of seasonality. This is the quarter in which you have maximum holidays especially at onsite positions and also this is a quarter when you have overall a low amount of billable hours. The billable hours in Q3 are lower by 6% when compared to Q2, so that has probably been the reason for the lower volume growth in Q3 over Q2.

Sunil: Okay. And Rostow, also could you repeat the impact of the accounting change because the line was breaking up a bit.

Rostow Ravanan: Sure. The impact of the change was approximately 2 million dollars, the charge that we took in the current quarter.

Sunil: You also gave a number of 6 million, what was that?

Rostow Ravanan: If we had adopted the same treatment of accounting at fair value for all our receivables hedges that we have done as of December 31, 2007, that would have given us a gain of 6 million dollars, but that we have not booked. We only booked the negative item and not taken a positive item in the interest of doing conservative accounting.

Sunil: So, next quarter, we will have another change in accounting?

Rostow Ravanan: No, no, no. The accounting for our receivables is not going to change. It will continue the same way, but I just gave that data in the context of the treatment we adopted for this forex instrument. Our accounting treatment will continue on the basis of what we have done right now.

That 6 million dollar gain will come to our P&L as and when those contracts expire. Those contracts are over the next 12 months or 18 months of the hedges that we have. As and when those contracts are settled and those gains are realized, that 6 million dollars will flow to us over time, but there will be no change in accounting treatment from this quarter to next.

Sunil: Okay, thank you very much.

Moderator: Thank you very much sir. Next in line we have Mr. Ruchit Mehta from HSBC. Over to you sir.

Ruchit Mehta: Hi. Good evening gentlemen and congratulations on a great quarter. Just could you give us bit more details on the acquisitions that you just made in terms of what is the amount that you paid, the revenue size, the profitability, and when do you see it getting consolidated.

Rostow Ravanan: Sure. The acquisition was consummated on December 17, 2007, so there has been no impact in the current Qtr for those results because it was not material to consolidate for those 13 days. We paid 6.55 million dollars for that acquisition. That business is approximately on a run rate of 1 million dollars per quarter but that result will flow through for us in Q4. No accounting was done for the acquisition in Q3 itself. Beyond the financials, from the business perspective, I will invite my colleague Janakiraman to talk to you about business benefits of the acquisition.

Janakiraman: Yeah. The business benefit of the acquisition which we did, which is PV, doubles our IC Design strength and we have today more than 300 people in the IC Design and another 65-70 people in the Board Design and we become one of the large players in this space that gives us ability to address larger projects and mine our existing accounts much more deeper. I expect the results of it in terms of positive impact to flow in the next two quarters.

Ruchit Mehta: Okay, that's great. And gentlemen, just in terms of a general environment, I know you must have got it from a lot of other people as well, but if you could just give a comment as to from your experience as well, what do you see right now in the market place in terms of the demand environment for (a) IT, (b) offshoring, (c) pricing and you know how do you see things panning out despite whatever the issues are there in the US.

Ashok Soota: Sure. May be this one, let us spread the response across. I will give an overview, then I will ask Krishnakumar to give a view from as he is seeing it for larger IT Services business and then Janakiraman can come in on R&D Services. Overall, we are seeing the total demand environment is still very very positive. We are not seeing a slowdown at all. In fact, the first two quarters very clearly I would say that US growth rates have been much higher, so if that has been a concern area that has not borne out by any slowdowns that we have observed. We have seen very large traction and number of new customers also coming in, in the US. So, none of that momentum appears to be affected. Likewise, as I mentioned to you that you know the forecast we are seeing from even international organizations like Forrester or IDC continue to show that worldwide IT spends are not slowing down. I mean marginal slowdowns, they are getting offset by offshoring increases. So, the demand environment is certainly not getting constrained. We are all working now in an ever-increasing base and to that extent the challenge remains how do you, on an increasing base, get upwards of let us say 30% type of growth rate. Let me then ask KK, Krishnakumar to comment on how he is seeing things from IT Services side.

Ruchit Mehta: I wish to interrupt that. You are not seeing any issues, any of the customers who come down and say you know we are going to cut budgets or nothing of that sort?

Ashok Soota: No, certainly, you know in our business because we have such a high proportion of new application development, relatively lower annuities, we may get cycles linked up with the fact that large project may come to an end, the next one may not be available, which is why I would say that you may see at times lets say less consistent or more or less uniform growth rate in our business from quarter to quarter as compared to the larger players, but that fluctuation is purely due to in effect of the fact I just mentioned. It is nothing to do somebody saying here we are cutting down our budgets, not going to do outsourcing or stuff like that.

Ruchit Mehta: Okay.

Krishnakumar: Again, just to continue on the thing which Ashok said, clearly we are not hearing that from customers in terms of cutting down on budgets and that has probably also reflected in terms of the segments which we really address, clearly we are very strong in Manufacturing, Travel and Transportation and if you even see the Q2 growth numbers, both of them have had strong momentum and going into 09 we certainly see the same momentum continuing and even in the segments which we focus on Capital Markets and Banking, we are not hearing that there are people going to sort of cut down budgets which is really the confidence with which we have indicated saying we would certainly see between 25% to 30% growth rate during the next financial year. What we are also seeing is clearly certain practices like Infrastructure Management having strong growth momentum, Independent Testing, Business Intelligence and Data Warehousing having strong momentum in terms of growth. On your other question on pricing, we certainly see the environment for pricing as fairly stable. In fact, all our contract renewals on offshore basis have price increases between 5% and 6%, onsite price increases of 2% to 3% and new contracts are all coming in at least at 5% above our current average which in a way is also reflected what Rostow indicated in terms of better price realizations also which we have had. So, we clearly see the environment for pricing as being stable.

Ashok Soota: Jani, do you want to add….

Janakiraman: Sure. I agree with Ashok and KK. Even in the R&D Services, we do not see any major pressure points. One is that you know in terms of the number of accounts that we are adding, it is continuing and there are more and more of offshore momentum for the large technology companies to look at the Indian service providers. The prices, there had been no price pressure in terms of reduction. At the same time, many of the contracts which have come for renewal in January, we have had a price increase which is ranging from 5% to 7%, but if you take the technology companies whom we are already operating with, normally the annual budget and then the plan they would have announced by December end – January beginning to say how much they are budgeting for this year, this year I see a little bit delay in terms of they coming back to us saying that this is the budget for the year and this is what we can look for and possibly in another 15 to 20 days that also will become clear.

Ruchit Mehta: Is R&D more vulnerable than IT Services, if we say for example there were to be a downturn.

Ashok Soota: You know that the way I would really describe to the extent that there may be more sort of project oriented business is much higher proportion there. There are certainly issues whereby the volatility in that business is larger, given project comes to an end and the next one is not available almost as that ends. If you see that part of R&D Services is very largely a function also, what is the degree of VC funding which is going on because new entities coming on, expansion taking place in the tech sector. I say none of those are affected and you can see that in the tech sector results in the US. They are looking pretty robust. We have had recently interactions with a number of VCs including our own investors and they have said that there is absolutely no slowdown that they are seeing in the Silicon Valley in terms of expansion and new businesses coming ahead.

Ruchit Mehta: That's great. Thank you very much.

Moderator: Thank you very much sir. Next in line we have Mr. Sujith from Irevna Research. Over to you sir.

Sujith: Hi. Good afternoon. Given your guidance that you have upwardly revised this time around, so that would work up to 15% dollar growth for the next quarter. How is deal pipeline shaping up for you, do you have confidence in this number.

Rostow Ravanan: It is not 15% upwards, the number I gave you of 186 million dollars is the total income implying approx 5% sequential growth next quarter

Moderator: I am sorry to interrupt sir. Sir, your voice is breaking sir.

Rostow Ravanan: Let me repeat that, the guidance that we gave of 186 million dollars and also the guidance we gave at the beginning of the year of 178 to 180, is always on a total income basis which is revenues plus other income.

Sujith: Okay.

Rostow Ravanan: On revenues itself we are seeing an approximate, we continue to see a 5% sequential growth in dollar terms for Q4 over Q3.

Sujith: Okay. So, how is the deal pipeline for you to be having an upward guidance from this.

Ashok Soota: You know you can see this is not a very ambitious number that we have stated in terms of 5% dollar serial growth.

Sujith: Okay.

Ashok Soota: And I would say that the deal pipeline for doing that is really very comfortable. We are really talking of in one quarter ahead.

Sujith: Okay.

Ashok Soota: So, there obviously is a high confidence level in achieving this.

Sujith: Okay. Just two questions regarding your verticals that we talked about. One is the decline in your Banking and Financial IT Services numbers in terms of revenue and also in Automotive and Industrial Systems, just a clarification on these two.

Ashok Soota: The Automotives and Industrial is really for R&D and the Banking and Financial. May be we can get… in the case of Automotive and Industrial, there is no…. I think there is a percentage decline, not…okay there is also an absolute number.

Sujith: Yeah.

Ashok Soota: So may be we can get Jani to first come on in and then KK.

Janakiraman: In the Automotive and Industrial segment, we do not provide the splits outside, but if you look at for us internally, the Industrial Systems is something which has surely grown, but the Automotive is the one where we had as Ashok was saying some of the accounts which were totally project based.

Sujith: Okay.

Janakiraman: The projects have ended in the October-November timeframe and normally they work on the new projects once their new plan gets sanctioned and they expect recovery in their current quarter actually, that is the Q4, so it had been more because of the project nature in the Automotive business that we are doing businesses.

Sujith: Okay.

Krishnakumar: Just to give you a sense on BFSI, I think probably what we will try and do is split I think the specific instance in this quarter is more in the Insurance context one large project has ended, which has not got substituted by additional revenue which is certainly going to pick up during Q4 and we also see that clearly in the Banking and Capital Markets, we have been flat which is why it is showing overall on the BFSI sort of decline, but that is clearly one large project which has just ended during the current quarter which will sort of be substituted by other businesses during the current quarter.

Sujith: Okay sir, how do you see this particular vertical panning out given the problems in US.

Krishnakumar: See again, that is what I mentioned, our exposure to the segment is not significant because that is a very conscious strategy. We really went into other underserved verticals like Manufacturing, Travel and Transportation, but now we have a focus, but we have a different focus like in the Banking we had targeted more on the midsize banks which have not sort of used outsourcing, we are certainly seeing momentum there. We are focused on asset management companies where again we are seeing momentum. We have picked up certain specific niches in terms of risk management of different asset classes through a package implementation where we are seeing momentum. So, to that extent, we do not have the dependence of large clients with whom we deliver multiple services, so because they are going to cut down on the budgets there is an impact on us.

Sujith: Okay and you have forex loss, is that purely on your accounting related difference or is there something else, the forex loss that you have booked on?

Rostow Ravanan: It is absolutely on accounting difference, the instrument itself will settle in November 2008 and we expect trends to reverse between now and then, but like I said in the interest of being conservative on accounting, we applied the fair-value method and took a mark-to-market loss on that instrument.

Ashok Soota: And would it be fair to say Rostow that when you say that the instrument sort of expires in November 2008, the loss if any has been capped, if anything there could be a reversal on this.

Rostow Ravanan: Correct. Ashok has made an important point and we do not expect additional charges come on this instrument in future.

Ashok Soota: And also this is only the instrument of its type that we have.

Rostow Ravanan: Right and again to reiterate, it was not a speculative kind of transaction that we did. It was a loan that we had taken for capex expansion, so it is as linked to the business as you can expect it to be. It is just that since we have done a structured derivative to on top of it, it went into a mark-to-market negative.

Sujith: Okay. Thanks a lot and all the best.

Ashok Soota: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Srivatsan from Spark Capital. Over to you sir.

Srivatsan: Yeah, my question relates to the R&D Services. We have been listening from the other vendors that there is some sort of softness especially in the semiconductor design and related to network equipments. How is it for you and what do you see happening in this space?

Janakiraman: If you have to look at the R&D Services, we are operating on multiple verticals, four verticals effectively - Communication, Consumer Appliance, Industrial Systems, and Storage. In addition, we are working with both Semiconductor companies as well as system companies in this segment actually. To an extent, your observation is true. On the Semiconductor side, we are seeing little bit of softening on that front in terms of newer projects and newer investments happening, but we do not see that in the Communication, rather we are bouncing back, we are adding more clients and our business there is picking up momentum on the Communication side. So, I agree with you on the Semiconductor side, but our dependence on semiconductor is lesser because we have equally good system companies and we work on the other vertical segments also.

Srivatsan: Okay. Is it possible to throw some light on what the profitability of the acquisition could be?

Rostow Ravanan: Till Q3, that business ran approximately at 3% to 4% net margins. Part of our initiatives, once the integration is currently underway, is to find out a way of how to improve the margins of that business. When we announce the results of Q4, we will have little more detail that we can share with all of you.

Srivatsan: What will be your total capacity under SEZ, there is one in Chennai, do you have any other SEZ plans?

Rostow Ravanan: In Chennai, the one facility that we have is approximately 280,000 square feet which can seat about 2,500 people which is an SEZ facility. In Bangalore, all our incremental growth will come under SEZ. About 430,000 square feet building is currently underway and we have occupied a part of that building, so those are the two SEZ facilities we currently have. Additional capacity is being created for us in the SEZ in Bangalore as well which will be available to us in 2009. The facility which we you know acquired in Bhubaneshwar is also an approved SEZ. During the course of this year, we will figure out when and how we will start it, you know what kind of ambition we want to have over there, but whenever we expand in Bhubaneshwar, that will also be an SEZ, so approximately 700,000 square feet of SEZ space is currently available to us and more as and when we need for our business growth.

Srivatsan: Okay, just wanted to know how many offers have been made for freshers who are expected to join next year?

Puneet Jetli: We have made roughly around 1250 offers and these are for engineering as well as science graduates and we expect them to join over the course of next year. We have not intimated to them you know when they would be joining, but they would join over the course of next three or four quarters.

Srivatsan: Okay. Thank you very much and all the best.

Moderator: Thank you very much sir. Next in line we have Mr. Hitesh Shah from CitiGroup. Over to you sir.

Hitesh Shah: Yeah. Congratulations on a good set of numbers. Just wanted to understand the pricing improvement that we saw during this quarter, about 5% q-on-q at onsite and about a percentage increase at offshore. Was there anything one time in this or whatever is the average pricing this quarter is more sustainable?

Rostow Ravanan: There was nothing one time in it. This are realized prices on an average between both existing customers and new customers, so there was nothing one time in it.

Hitesh Shah: Sure. In terms of pricing increase starting 1st January, most of our pricing increase come from this quarter, so what kind of pricing increase should we expect from this quarter onwards?

Rostow Ravanan: We do not want to comment on that specifically at this stage. Like Ashok said we will make more detailed comments on our next year guidance, etc. at the end of Q4, but broadly like KK also mentioned we see a fairly stable and positive kind of environment on pricing and the point that we would also like to highlight is to a certain extent one of the advantages we have is by being of project-oriented business, we would get increases on a project-to-project basis depending on value we add to customers and we are not necessarily always tied to contract renewals or price increases, so this is an advantage to us based on our model as well, but broadly to answer your question, we expect a stable and a positive pricing environment for us.

Hitesh Shah: Sure. Also in our notes to accounts we had mentioned that there is some derivative contract with Swiss franc as an underline. Do we have an exposure there or is it an exotic structure that has been done using the Swiss franc, wanted to understand that.

Ashok Soota: Can I just add one more thing on this issue of price. I just want to take up because there should not be an expectation where the bulk of our price increases come in Jan and then you question how much did we get. Typically, the model for price increases that you sign contracts at different times of the year, prices remain valid for about 12 months and then when that contract in itself comes up for renewal at the end of that period, either there is a built-in price increase or that gets discussed at that time. So, therefore price increases do tend to be spread pretty uniformly through the course of the year; it is not a one-off which is good in one sense you are not overly dependent on market conditions or mental state at just one point of the year. It continuously goes through and therefore I just want to create a balanced expectation also for the Jan quarter.

Hitesh Shah: Sure. And in terms of the 22 million dollar Swiss franc contract that we had taken under derivatives, just wanted to understand, do we have an exposure to Swiss franc or is it some complex structure that we had taken.

Rostow Ravanan: No. As of now, we do not have an exposure to Swiss franc per se. What we have done was to borrow and then using a derivative structure convert that Swiss franc liability into a US dollar liability and like we mentioned that was what was mark-to-market on which we had taken a 2 million dollar provision for the quarter ended December 31, 2007, and again like we mentioned we do not anticipate further provisions to be required on that account.

Hitesh Shah: Sure, thanks. And in terms of our US geography and application development, we saw kind of flattish kind of revenue or slightly declining. Is that we are experiencing some kind of a pressure on the discretionary part of IT budgets and hence application development growing slightly slower or it is just a quarterly fluctuation, if you could throw some light on that.

Ashok Soota: I think, if you look at all of this data on a year-to-date basis for us and ……..

Rostow Ravanan: Of course from a pure data standpoint, the US was not a negative growth. The US was a positive growth for us from last quarter to this quarter, but beyond that Ashok, KK, and Jani, you can give your respective views on the results.

Ashok Soota: I was just going to say that overall if you see our year-to-date growth in the US, it has been pretty substantial and it has actually been a very strong geography for us right through the year, so the first two quarters it grew much sharper. This quarter, overall, it might have been a little slower than Europe and that is partially because Europe picked up a lot in this quarter. On a year-to-date basis, I say it is growth in US and Europe if we take both of the businesses. Rostow, would you be able to just provide that data to him straight away?

Rostow Ravanan: Yeah. The business was approximately around 30 million dollars both quarters. Europe grew from 8.2 to 9.0. So, like Ashok mentioned, it has maintained its trajectory. Europe and APAC grew stronger this quarter.

Hitesh Shah: Sure. In terms of application development, do we see any kind of pressure on the discretionary part of IT budgets?

Krishnakumar: No, I think it is more in the context if you really see clearly Maintenance has picked up because fundamentally if you look at enterprise budgets they really look at in terms of thing and if there is an increase in our Maintenance as well as both the Maintenance business as well as the Independent Testing which has gone up. It is also a bit of classification because what we have done is clearly earlier Development, some part of it, it got sort of reported under Development, so that has got corrected and which is why you see Independent Testing has gone up from 4.7% to 6.3%. That classification has also been corrected.

Hitesh Shah: Okay, sure. Thanks and all the best.

Krishnakumar: Yeah.

Rostow Ravanan: One point I would like to make to supplement KK's point is that in absolute terms, Development revenues also grew for us in this quarter. Because of our conscious effort, we increased our annuity kind of revenues, you see a dip in percentage terms, but in absolute terms development revenues grew, so I would not say there is a pressure on discretionary budgets that we are seeing from customer at this stage.

Hitesh Shah: Sure, thanks a lot.

Moderator: Thank you very much sir. Next in line we have Mr. Ashakiran from Span Capital. Over to you sir.

Mr. Ashakiran: Hi. Hello, hi.

Rostow Ravanan: Yeah, please go ahead.

Ashakiran: Sir, let me congratulate you on the good set of numbers and I have a couple of questions. Firstly, this is regarding your acquisition of TES-PV. Can you give some numbers of the financials of this company and some.

Moderator: I am sorry to interrupt sir. Mr. Ashakiran.

Ashakiran: Yes.

Moderator: Sir, your voice is breaking sir.

Ashakiran: Hello…

Moderator: Hello sir.

Ashakiran: Is it clear now...

Moderator: Still your voice is breaking sir.

Ashakiran: Hello…

Ashok Soota: Why don't you just continue, we will see if we can get you.

Moderator: Alright sir. You can go ahead Mr. Kiran.

Ashakiran: Okay. Hello….

Ashok Soota: Yeah, it seems better now, why don't you just continue.

Ashakiran: Sir, can you give the numbers of your acquisition, how many employees are there working in that Purple and what are the numbers both top line and bottom line of the company?

Rostow Ravanan: Sure. Like we mentioned, this is about 150 to 160 professionals who joined us from that company who are IC Design experts. The company itself is approximately on a run rate revenue, quarterly revenue run rate of a million dollars with about 3% to 4% net margins. No accounting was done for that in our current quarter because the acquisition itself was closed on December 17, 2007, and we did not consolidate for those 13 days, but we expect the revenue to be available to us on a consolidated basis for Q4 and we are currently in the integration taskforce trying to figure out what we can do to improve the margins of that business as well.

Ashakiran: Can you give the order book for next year?

Ashok Soota: Again you are breaking up, but you know we do not really disclose our order book. What we would like to clarify is that we have a healthy pipeline. We believe that the pipeline is you know able to support very clearly the guidance that we have given and it also indicates a healthy growth available on the lines we have indicated without giving a guidance at this stage for 08-09.

Ashakiran: Okay sir, thank you sir.

Moderator: Thank you very much sir. Next in line, we have Mr. George from Edelweiss. Over to you sir.

George: Yeah. Hi. Thanks for taking my question. Actually I just noticed that fixed price as a percentage of revenues have come down. Again, is this a quarterly phenomenon or do you see you know the fact that fixed price on the percentage of revenues will go up as it is seen for most other companies in the sector.

Rostow Ravanan: Sure. For us it is probably anecdotal. There is no conscious move, one way or the other to increase or decrease fixed price. Like KK mentioned, couple of our last customers, certain projects ended up during the course of this quarter. Those who will restart, again new projects will restart from those customers next quarter, so I guess it is just a quarterly anecdotal movement.

George: Okay thanks. The other thing is you did mention earlier that there is an element of seasonality built in this quarter because of lower you know billing days. Could you just give us comparable quarterly changes, quarterly movements for the same quarter last year as well? What I am trying to say is that your volume growth in Q3 FY07 versus Q2 FY07, that is the only data point I am seeking.

Ashok Soota: We will probably need to access that data and we may be able to get it. My own guess is that there would have been a whole chunk of factors in that quarter.

George: Okay.

Ashok Soota: Which would have been very radically different. In fact, if I just say it from memory, I do believe it was not a good quarter for us in Europe last year.

George: Okay, okay. Because essentially I am just trying to get a sense on the seasonality element that might have been present in the same quarter last year.

Ashok Soota: It really isn't you know. I will tell you for example last year Q3 was not a good quarter for us in Europe and in fact you know we would have again been concerned had we not seen a reversal of that, whereas in this year Q3 has been exceedingly good quarter for Europe. So, it is more of a function I would say certainly at which stage a given account is ramping up or a given project is perhaps ramping or suddenly comes to an end. These things at our size can make a significant difference, but without any underlying change I would say in overall sense. So, it is probably Europe which has provided the largest amount of fluctuation simply because it has been a very good quarter this year in Q3 and last year relatively poorer one, but I think Rostow now has the data.

George: Sure.

Rostow Ravanan: George, last year Q3 over Q2 was a negative growth of 2%.

George: Okay.

Rostow Ravanan: In dollar terms as compared to a positive growth of 5% in this year, but like Ashok mentioned it was certain amount of account specific factors last year.

Ashok Soota: And also at that time purely restricted to Europe.

Rostow Ravanan: In some of our geographies in terms of our accounts last year, it was not……

In this quarter like I mentioned especially both on onsite and offshore billings, there were lower available hours in Q3 as compared to Q2, so that is what I was referring to when I made my comment.

George: Sure, thanks. Ashok, you did mention in your last call on declaration of the previous quarterly results that you know you are looking to get some results out from your strategic account management practice in terms of you know getting clients who could scale to the 5-10 million dollar category, either in getting those accounts or in scaling them up on the delivery side, and you did indicate to me you have hired a couple of you know high-profile heavy duty people here. Could you just indicate to me the progress on that front please.

Ashok Soota: Well, the high profile we were talking is with us here and our Chief Strategy Officer.

George: Okay, okay.

Ashok Soota: And you know I think some of this is really likely to be seen much more on a year-to-year basis and you can see there is already an upward movement in the number of one million dollar accounts and the number of five-million dollar accounts during this quarter itself.

Rostow: Some Fortune Global 500 accounts as well that we won during the course of this quarter, so the early visibility of our, early whatever results are visible of our action plan, but like I said you know this we will have to wait and see more concrete results as we go forward.

George: Sure. Ashok, I also wanted to take you up on one of the earlier comments you made in the call saying that you know you would not probably expect to grow at 40% to 45% in dollar terms in FY09. If I look at it, you know you still do not have the base effect at 180 million dollars, you know you are still relatively small, that is point number one. Point number two, you are still building traction out in you know other service lines like Infrastructure Management, Testing, and a couple of other service lines all adding to that at the same time. You had also put in together strategic account management practices in place which should you know play out over you know may be two to three quarters out from now, so why don't you think you know you should be able replicate your dollar and plus you are seeing the environment also pretty conducive at this point in time. Why should not you, you know, replicate the same growth rates going forward as well in 09 at least.

Ashok Soota: Sure, you know let me just get one perspective on the environment. Because the thrust of so many of the questions were saying is there any negativity in the environment, we are saying no. Obviously, it is not the sort of environment that you had during the time of the dot com boom where perhaps everybody could ride a wave on the fact that growth then picked up for the industry as a whole. I think what we would believe at our size that we would like to be able to do and sustain is to grow at approximately 25% faster than what you see is the industry growth rate. And I believe that this is around the level where we are heading in the current year and I think that is something that we should be able to sustain as we go ahead for the foreseeable future, excluding any growth that we could get out of inorganic growth.

George: Okay. So which means if the industry grows at 25%, you expect to grow at 31% to 32%.

Ashok Soota: This is what we should say should be a goal and a target for ourselves or something which we see as being achievable and again using your numbers here for a moment, it seems to fit with pretty much in our own ballpark of saying that we are confident that it will be 25% to 30%. Now we are at this stage saying we would convert that into a formal guidance in April.

George: Fine. I wanted to ask you also about your India business. Your revenues have grown up quite smartly on a y-on-y basis, faster than your international revenues. Is that likely to be the case going forward or that was incidental, that is point number one. Question number two is that on the margins of this business, is that you know bringing down the margins, has that contributed to you know lower margins from FY08.

Ashok Soota: KK, do you want to comment on the point of the India business having grown and whether we see that as…..

George: Margin Dilutive.

Krishnakumar: Really I think right from the time we started we have focused on India as a market and we clearly see the market becoming more and more sophisticated, larger opportunities coming. Areas like Defence, e-Governance having a lot of focus and things. So, we do have a very healthy pipeline. The business is very much a project-oriented business. So, it tends to be a little bit volatile in terms of revenues. You have four-five projects which pushes up revenues in a quarter and till the new projects come it tends to thin, but going forward, I think clearly it is going to be strategic for us. In fact, we have a very good base which we have set up. We have offices in all the key markets, we have good client contacts, good referenceable clients on whom we can grow the business. So, going forward, we will certainly focus on it and look aggressively in terms of expanding. You are right that the margin in a sense on a comparative basis tends to be lower, but if you really look at I think the market gives us an opportunity to significantly take much more larger complex projects and our ability to sort of really leverage the talent which we build in here for overseas market on a much higher billable rate also significantly expands, so if you really look at in a larger time scale, I think it is certainly a very attractive option to be there.

George: Okay, fine, alright. Thank you so much.

Rostow Ravanan: Thanks George.

Moderator: Thank you very much sir. Next in line, we have Mr. Sanket from IL&FS Investsmart. Over to you sir.

Sanket: Thanks for taking my question gentlemen. I have a couple of questions. Number one, in the light of the guidance given and the Q3 numbers out, do we see any margin contraction in Q4 coming on the EBITDA as well as PAT level?

Rostow Ravanan: We do not expect a margin contraction either at the EBITDA or the PAT level.

Sanket: Okay. Because you know if we just back calculate, you know what you have guided for full year FY08 and you know deduct what PAT you have done currently till now in Q1, Q2 and Q3, that brings me to this conclusion that you know it might be because you have guided for around say about 22.5 million dollars at exchange range of 39.5 if we take, that is how I have, you know it brings me to this conclusion, but can you throw some light on it.

Rostow Ravanan: Adjusting for the rupee, we believe like I said at an EBITDA level maintain margins in effect of the rupee would impact at a net margin level post EBITDA, but otherwise we expect to maintain margins for the rest of this year.

Sanket: Secondly, if we see our domestic business, it has grown from about say 12.5 crores to about 12.6 crores this quarter, so vis-à-vis you know a better increase in Q2 over Q1, so is there a seasonality element built in there or you know how do you see it panning out.

Ashok Soota: You are talking of the India business, you know again there is no seasonality. Our thing, you know, if we get large order, it will immediately get reflected as we are executing. So, I think once you get into a much maybe larger levels and volumes, we may see some seasonality though my impression is having worked in the Indian market for many years in the computer business, there is a lot of seasonality in the computer business in India because in the hardware sales, everybody's budgets are expiring and they want to use them in March. So, the last quarter of the year typically used to account for upwards of 35% to 40% of the sales and then people who are selling into the government have very large seasonality again in their last quarter. Other than that, frankly there is no real built-in seasonality and certainly in our type of business, there is no in-built seasonality.

Sanket: Okay. Thanks a lot.

Moderator: Thank you very much sir. Participants who wish to ask questions, kindly press *1 on your telephone key pad. Next in line, we have Mr. Joshi from (inaudible).

Joshi: Yeah. Hi. All my questions have been answered. Thank you.

Rostow Ravanan: Thank you.

Moderator: Thank you very much sir. Next in line, we have Mr. George from Edelweiss. Over to you sir.

George: Hi. Let me just slip one last question in. Do you see wage trends you know weakening in terms of beneficially weakening in FY09 going forward because some people outlook on this is quite mixed.

Ashok Soota: I will hand over to Puneet who is our Head of People Function to answer this question.

George: Sure.

Puneet Jetli: Sure. You know, at this point in time, we are in the midst of our planning process, so you know we cannot give you any definite numbers. Obviously, the next time we will be able to give you a full visibility in terms of what we see as wage increases in various parts of the world.

George: Okay, but if you are picking up signals from the market, you are seeing that you know the kind of salary increases you need to give may be in 07-08 probably you know it is now lower going into FY09, you know if offshore rates were 15% hikes, now you can do with 10% to 12%. Are you seeing those kind of signals?

Puneet Jetli: You know you have to look at two angles. We still have to get a detailed compensation survey reports which typically start coming in, in February sort of timeframe which will give us a very, very definitive indications of you know who we consider as competitors, what they are planning to do, and what is the you know salary trend, but right now the general you know indications coming from HR consulting firms still seem to be indicating that it would be in the range of 14% to 15%.

George: Okay, and you have given you know your offers to freshers to join you for the 09 season at 3.2, if I recall rightly, right?

Puneet Jetli: That's right.

George: Okay, thank you.

Ashok Soota: Thank you.

Moderator: Thank you very much sir. Next in line we have Mr. Shreyas from IDFC SSKI Securities. Over to you sir.

Shreyas: Hello. Just wanted to know regarding the utilization it has come down from 65 to 60 in the last three quarters. So, where do you see it going moving ahead.

Ashok Soota: You know two-three things we should really talk about utilization, especially in the context of having given firstly an absolute number as well as the trend. You know, we do believe that we follow the most stringent definition of utilization, so when you compare with the numbers you are used to in the industry, you may say it looks low and that is largely at least to one extent due to the fact that we talk of utilization as billed hours upon total available hours and spread across the entire quarter, it is not an average of a month or it is not the last week of the month or it is not the last day of the quarter's utilization. We believe that if we take some of our competitors and you were to compare our numbers, you will find that there is probably a 5 to 6 percentage gap in just a sheer method of calculation whereby ours is that much more conservative and I would say really more accurate because that is the best definition for utilization. In terms of the reduction that you have seen in this last quarter, it is almost completely linked to the fact that we had a very high level of campus joining that we did. We gave you those numbers right at the very beginning. I would say we have also had a little bit of a learning experience in the way we bring in campus hires. It is the first year that we have done major campus hiring. We do believe that in years going ahead, we will stagger that on a quarterly basis of joining rather than as we did this time into two lots, so that we get a more uniform flow and utilization and improve the billability.

Shreyas: Okay. Regarding your guidance for employee hiring, I think you have guided for 1600 employee addition during the year, so are you on track or you are either going to increase it or decrease this guidance number?

Rostow Ravanan: Employee hiring for this year….

Puneet Jetli: Yeah, you know right now we are on track in terms of you know what the business is looking for. Obviously, because of Purple Vision addition, we have 160 odd people who have joined, so based on this we will continue to monitor you know what is the you know revenue forecast we are seeing, what are the skills which we have and what are needed and based on that would continue to add from the market.

Shreyas: Okay. Regarding your annuity business, what was the proportion of annuity business in this quarter?

Ashok Soota: That number has really gone up to 38.4% in context of the definition we told you last time. You know I want to share one thing with you, we are relooking at the whole definition of what constitutes annuity and again there is no standard definition, but if I were to take the same old definition, that number has gone up progressively from being 26.6% last year same quarter and the previous quarter was 36.1, it has now gone up to 38.4.

Shreyas: Okay, thank you very much.

Ashok Soota: Hello…..I think our bridge has gone. We are not hearing any sound.

Rostow Ravanan: Rita can you hear us?

Moderator: I can hear you sir.

Ashok Soota: Do you have more questions?

Moderator: Let me just check. Participants who wish to ask questions, kindly press *1 on your telephone keypad. Next in line we have Mr. Sandeep from IIFL. Over to you sir.

Sandeep: Hi. Congratulations on a good quarter. I had one question regarding your attrition numbers. Here I am seeing slight contradiction. Of course, MindTree comes out on top on most of the employee satisfaction surveys, but your attrition seems to be running pretty high. Could you just highlight some of the measures you are taking to bring down the attrition and also any possible reasons for this.

Ashok Soota: One thing of course we should say that the attrition numbers remain more or less flat. I mean it is 15.9% last twelve months, that is the number in the previous quarter, and now 16%. So, it is not that there has been a material change. In fact, you might say that the attrition in this quarter is actually lower than the last quarter, but because we are describing last 12 months number, the quarter which would have dropped off in the calculation must have been a particularly low one which is why the number seems to have moved from 15.9 to 16, so there is no absolute increase. The other thing that I would before I get Puneet into the picture, we do have two businesses, R&D Services business and IT Services and I do believe that for us obviously R&D Services is significant and I think if you look at the space generally, because there are a lot of multinational players with captive centers, etc., in that space, clearly the attrition in the R&D Services space is higher than it is in the IT Services space. If you have to do a like-to-like comparison between us and our major competitors and looked at our IT Services numbers alone, I think you would see a much lower number which really reflects that we would be amongst the, leaving aside the top one or two entities who are very much larger, that you will see our numbers are much lower than most of the other players and obviously significantly lower than industry average. Puneet, do you want to just add to that?

Puneet Jetli: Sure. You know, in terms of what are the general trends we are seeing and what are we doing to protect, obviously we would want to keep the attrition numbers even lower than what they are and you know we are taking appropriate steps what need to be done to ensure that we continue to improve you know our current practices as well as introduce new innovative ones to engage our people better and therefore that should you know result in reduction in attrition, but I think one of the things which we need to realize is we lose many of our people because you know they want to relocate back to you know their hometowns where they have been coming from and right now we have you know just two locations Bangalore and Chennai, so you know even inter-office transfer, the opportunities are available only in these two locations and that is a significant category of you know what we lose out in terms of attrition. That is something which is beyond our immediate control, but we will continue to focus on the practices and ensure that we build tighter engagement.

Shreyas: Okay, thanks a lot.

Moderator: Thank you very much sir. Participants who wish to ask questions, kindly press *1 on your telephone key pad. At this moment, there are no further questions from participants. I would like to hand over the floor back to Mr. Bhaskar for the final remarks. Over to you sir.

Bhaskar: Thanks Rita. Thanks everyone and we look forward to speaking with you at the end of the next quarter. That concludes the call for the day. Thanks.

Ashok Soota: Thank you.

Moderator: Thank you very much sir. Ladies and gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you.